

May 27, 2020

The Honorable Chair and Members
of the Hawai'i Public Utilities Commission
Kekuanao'a Building, First Floor
465 South King Street
Honolulu, Hawai'i 96813

Dear Commissioners:

Subject: Docket No. 2019-0085 – Hawaiian Electric 2020 Test Year Rate Case
Parties' Joint Stipulated Settlement Letter

This letter and Exhibit 1 constitute and present a joint global settlement agreement (“Stipulated Settlement” or “settlement agreement”) of all issues in this docket between Hawaiian Electric Company, Inc. (“Hawaiian Electric” or the “Company”) and the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs (“Consumer Advocate”) (collectively referred to as the “Parties”).

As explained in Exhibit 1, Hawaiian Electric and the Consumer Advocate agree that, as a result of this settlement agreement, there will be no base rate increase in this case – that is, there will be no increase in electric revenues recovered through customer rate schedules over the revenues established in the 2017 test year rate case, and no changes to the rates in those customer rate schedules for the 2020 test year; there will be no shift in cost recovery from surcharges (Rate Adjustment Mechanism (“RAM”) Revenue Adjustment, Major Projects Interim Recovery (“MPIR”), Renewable Energy Infrastructure Program Cost Recovery Provision (“REIP”), Demand Side Management Adjustment (“DSM”)) to revenues that are recovered from customer rate schedules until completed or until the remaining balances are moved to recovery through customer rate schedules in a future rate case or general rate setting proceeding.

Effectively, as a result of this agreement, the Company will not obtain a sought increase in base revenues of approximately \$68.843 million, other operating revenues of \$0.836 million and energy cost recovery clause (“ECRC”) revenues of \$7.875 million¹ over revenues at current effective rates. The Company has agreed to this compromise result for several reasons, including: (1) the Company understands that any rate increase at this time would be a hardship

¹ \$1.749 million of these ECRC revenues will permanently be unrecovered because the Company herein agrees not to adjust the non-adjustable rate component of the ECRC. In the 2020 test year, estimated purchased power adjustment clause (“PPAC”) revenues remain virtually unchanged. The remainder of the \$7.875 million increase is due to the change in the target heat rate that the Company is agreeing not to change at this time. The ECRC and PPAC revenues will be adjusted according to the ECRC and PPAC tariffs but subject to the limitations set forth by the target heat rate and the fossil fuel cost risk sharing provisions in the ECRC tariff. The Parties acknowledge that this agreement on target heat rate terms and administration is solely for the purpose of achieving a global settlement in this rate case, and both Parties retain their rights to pursue future adjustments to target heat rate terms and administration as provided in the ECRC tariff.

on customers already financially distressed as a result of economic impacts of the COVID-19 pandemic; (2) the Company understands the Consumer Advocate intended to vigorously oppose any rate increase for the same reason; (3) the Company has been and will be further able to offset a significant portion of the requested rate increase through efficiencies and cost containment enabled by ERP/EAM system savings benefit realization, efficiencies and cost containment initiatives consistent with and in addition to recommendations in the Management Audit Final Report dated May 12, 2020, reprioritizing work, and by deferring or eliminating certain non-essential activities and efforts; and (4) the other terms and conditions upon which this settlement agreement is premised. Nevertheless, the Company will still continue to achieve state clean energy goals, modernize the grid and provide reliable electrical services to customers.

The agreements in this Stipulated Settlement are for the purpose of simplifying and expediting this proceeding, and represent a negotiated compromise of the matters agreed upon, and do not constitute an admission by any party with respect to any of the matters agreed upon herein. The Parties expressly reserve their right to take different positions regarding the matters agreed to herein in other proceedings. Further, as discussed in greater detail in Exhibit 1, the agreements reached represent compromises for the purpose of this proceeding and should not be deemed or interpreted to establish any precedent or to be used as evidence of either Party's position in any other regulatory proceeding, except as necessary to enforce the agreements reached in this proceeding.

The Parties shall support and defend this Stipulated Settlement before the Commission. If the Commission issues an order adopting and/or approving all material terms of this Stipulated Settlement, the Parties will also support and defend the Commission's order before any court or regulatory agency in which the order may be at issue. If the Commission does not issue an order adopting and/or approving all material terms of this Stipulated Settlement or makes material adjustments to this Stipulated Settlement, any or both of the Parties may withdraw from this Stipulated Settlement, and such Party or Parties may pursue their respective positions on Hawaiian Electric's application without prejudice, and the Parties do not waive the right to an evidentiary hearing. For the purposes of this Stipulated Settlement, whether a term is material shall be left to the discretion of the Party choosing to withdraw from the Stipulated Settlement.

On April 17, 2020, the Commission issued Order No. 37078 in this proceeding, which modified the procedural schedule originally established in Procedural Order No. 36964, filed on January 24, 2020, to incorporate changes to remaining deadlines and also to incorporate additional procedural steps to address the management audit of Hawaiian Electric. The remaining steps in the procedural schedule include:

1. Consumer Advocate's Direct Testimonies, Exhibits and Workpapers
2. Hawaiian Electric Management Audit (final auditor's report)
3. Last Day of Hawaiian Electric IRs to Consumer Advocate and Participants
4. Last Day of Consumer Advocate and Participants Responses to Hawaiian Electric IRs
5. Parties' and Participant's Statements of Position on the Management Audit

6. Settlement Proposal to Consumer Advocate
7. Settlement Discussion with Consumer Advocate
8. Filing of Parties' Joint Settlement Letter
9. Statements or Joint Statement of Probable Entitlement
10. Hawaiian Electric Rebuttal Testimonies, Exhibits, and Workpapers
11. Last Day of Consumer Advocate and Participants' Rebuttal IRs ("RIRs") to Hawaiian Electric
12. Last Day of Hawaiian Electric's Responses to Consumer Advocate and Participants' RIRs
13. Interim Decision and Order
14. Prehearing Conference
15. Evidentiary Hearing
16. Simultaneous Post-Hearing Briefs
17. Final D&O

On May 21, 2020, the Commission issued Order No. 37145 in this proceeding, which further modified the procedural schedule by:

1. Suspending the deadline for the Consumer Advocate to submit its Direct Testimonies, Exhibits, and Workpapers
2. Changing the deadline for the Parties' Joint Settlement Letter from July 23, 2020, to May 27, 2020
3. Changing the deadline for the Parties' Statements or Joint Statement of Probable Entitlement from July 23, 2020 to June 3, 2020

Order No. 37145 also stated:

The Commission declines to modify the other procedural steps at this time. The Commission will reserve ruling on all other remaining procedural deadlines until after it has reviewed the Joint Settlement Letter and Statements or Joint Statement of Probable Entitlement. Depending on the nature of the Settlement Letter, including whether it is a global or partial settlement and whether the Commission finds it reasonable, in whole or in part, it may be necessary to provide further procedural steps.

Accordingly, the Commission will issue a subsequent order on any remaining procedural steps in this proceeding following the submission of the Joint Settlement Letter and the Statements or Joint Statement of Probable Entitlement.

Approval of this Stipulated Settlement would render many of the remaining procedural steps unnecessary, except for those procedural steps associated with Company Rebuttal Testimonies, the management audit and a final decision and order for this proceeding approving this

Stipulated Settlement. However, the Company shall also be provided an opportunity to respond by July 1, 2020 to Parties' and Participant's Statements of Position on the Management Audit.

Under Hawai'i Revised Statutes, Section 91-9(d): "Any procedure in a contested case may be modified or waived by stipulation of the parties and informal disposition may be made of any contested case by stipulation, agreed settlement, consent order, or default." As a result of this Stipulated Settlement, the Parties: (1) agree that the written testimonies (and exhibits, workpapers, updates, responses to information requests and supplemental information related to such testimonies and updates) of all witnesses on the settled issues in this docket may be submitted without the witnesses appearing at an evidentiary hearing,² and (2) acknowledge that all identified witnesses are subject to call at the discretion of the Commission, and witnesses called by the Commission shall be subject to cross-examination upon any testimony provided at the call of the Commission. The Parties also agree to waive their rights to (a) present further evidence on the settled issues, except as provided herein, and (b) conduct cross-examination of the witnesses who are not testifying on the contested issues. This waiver shall also not apply where a Party deems it to be necessary to respond to evidence or argument resulting from the examination of witnesses or questions asked by the Commission.³

Although the Commission stated in Order No. 37145 that "Statements of Probable Entitlement are necessary to properly review and evaluate the Joint Settlement Letter,"⁴ because, as a result of this Stipulated Settlement, no increase in base rates is proposed and the Company is therefore not seeking interim rate relief, the Parties respectfully submit that a joint statement of probable entitlement, and any corresponding results of operations, are not necessary in this particular circumstance.

² This agreement is subject to the condition in the following paragraph concerning the Parties reserving the right to an evidentiary hearing under certain conditions.

³ Order No. 36906, issued on December 19, 2019, defined "Parties" as Hawaiian Electric and the Consumer Advocate. Order No. 36906, granted the Department of Defense ("DOD") participant status in this proceeding. Therefore, the DOD is not a party to this settlement. In Order No. 36964, the Commission called for settlement discussions between Hawaiian Electric and the Consumer Advocate and the "Filing of Parties' Joint Settlement Letter" and expressly ruled that "Participants are not entitled to participate in settlement discussions and are not required signatories to any settlement agreement", which is consistent with prior rate cases.

⁴ Order No. 37145 at 7 [footnote omitted].

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The Company is providing electronic copies of the Parties' Stipulated Settlement to the Commission, Consumer Advocate, and the DOD.⁵ In accordance with Order No. 37043, the Company is serving this filing on the Consumer Advocate and DOD via e-mail.⁶

DATED: Honolulu, Hawai'i, May 27, 2020.

/s/ Joseph P. Viola
JOSEPH P. VIOLA
Vice President, Regulatory Affairs
Hawaiian Electric Company, Inc.

/s/ Dean Nishina
DEAN NISHINA
Executive Director
Division of Consumer Advocacy
Department of Commerce and Consumer Affairs

⁵ Order No. 36906 issued in this proceeding on December 19, 2019, granted limited participant status to Life of the Land ("LOL") and the DOD. Order No. 37022 issued in this proceeding on March 3, 2020, granted LOL's Motion to Withdraw. Order No. 37040 issued on March 12, 2020, modified the DOD's scope of participation, as originally granted in Order No. 36906.

⁶ Order No. 37043 *Setting Forth Public Utilities Commission Emergency Filing and Service Procedures related to COVID-19* (non-docketed), issued on March 13, 2020 ("Order No. 37043") at 11.

DOCKET NO. 2019-0085

HAWAIIAN ELECTRIC 2020 TEST YEAR RATE CASE

AGREEMENTS REACHED BETWEEN
HAWAIIAN ELECTRIC AND THE CONSUMER ADVOCATE

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INTRODUCTION

This exhibit explains the agreements between Hawaiian Electric Company, Inc. (“Hawaiian Electric” or “Company”) and the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs (“Consumer Advocate”) (collectively, the “Parties”) that result in a proposed conclusion to Hawaiian Electric’s 2020 test year rate case (Docket No. 2019-0085) such that the remaining procedural steps would be unnecessary, except for procedural steps relating to participant the Department of Defense (“DOD”) and a final decision and order for this proceeding approving this settlement agreement. Hawaiian Electric and the Consumer Advocate request the Commission to approve this settlement agreement in total for the purposes of determining the revenue requirements and rate design for the 2020 test year.¹

Settlement of a number of issues required the Parties to compromise and agree to a result that may differ from their positions on these issues. Therefore, approval of only a portion of the settlements in this settlement agreement but not the others would disrupt the balance of compromises and would be inequitable and unfair to the Parties.

The agreements set forth in this document (“settlement agreement” or “agreement”) are for the purpose of simplifying and expediting this proceeding and represent a negotiated compromise of the matters agreed upon, and do not constitute an admission by any party with respect to any of the matters agreed upon herein. The Parties expressly reserve their right to take different positions regarding the matters agreed to herein in other proceedings. Furthermore, the Parties agree that nothing contained in this document shall be deemed or be interpreted to set any type of precedent, or be used as evidence of either Party’s position in any other regulatory proceeding involving the Parties or any other party, except as necessary to enforce the agreements described in this document. Except as otherwise expressly addressed herein, for purposes of this settlement, Company requests in the application should be effectively deemed withdrawn.

As explained in the sections below, Hawaiian Electric and the Consumer Advocate agree through this settlement agreement that as a result of this rate case, there will be no increase in electric revenues recovered through customer rate schedules over the revenues established in the 2017 test year rate case, and no changes to the rates in those customer rate schedules for the 2020 test year; there will be no shift in cost recovery from surcharges (Rate Adjustment Mechanism (“RAM”) Revenue Adjustment, Major Projects Interim Recovery (“MPIR”), Renewable Energy Infrastructure Program Cost Recovery Provision (“REIP”), Demand Side Management Adjustment (“DSM”)) to revenues that are recovered from customer rate schedules until completed or until the remaining balances are moved to recovery through customer rate schedules in a future rate case or general rate setting proceeding.

¹ In Order No. 36906, the Commission granted the DOD participant status in this proceeding. Therefore, the DOD is not a party to this settlement. In Order No. 37078, issued on April 17, 2020 (which amended the procedural schedule established in Procedural Order No. 36964, issued on January 24, 2020), the Commission expressly ruled that “Participants are not entitled to participate in settlement discussions and are not required signatories to any settlement agreement.”

Effectively, as a result of this agreement, the Company will not obtain a sought increase in base revenues of approximately \$68.843 million, other operating revenues of \$0.836 million and energy cost recovery clause (“ECRC”) revenues of \$7.875 million² over revenues at current effective rates. The Company has agreed to this compromise result for several reasons, including: (1) the Company understands that any rate increase at this time would be a hardship on customers already financially distressed as a result of economic impacts of the COVID-19 pandemic; (2) the Company understands the Consumer Advocate intended to vigorously oppose any rate increase for the same reason; (3) the Company has been and will be further able to offset a significant portion of the requested rate increase through efficiencies and cost containment enabled by ERP/EAM system savings benefit realization, efficiencies and cost containment initiatives consistent with and in addition to recommendations in the Management Audit Final Report dated May 12, 2020, reprioritizing work, and by deferring or eliminating certain non-essential activities and efforts; and (4) the other terms and conditions upon which this settlement agreement is premised. Nevertheless, the Company will still continue to achieve state clean energy goals, modernize the grid and provide reliable electrical services to customers.

REVENUES

On August 21, 2019, Hawaiian Electric filed its application, direct testimonies, exhibits and workpapers, requesting an increase of \$77,554,000 (or 4.12%) over revenues at current effective rates for a normalized 2020 test year.

As part of a global settlement to conclude this rate case, and in large part in consideration of the potential impacts of the COVID-19 pandemic on customers, subject to all the terms and conditions herein, the Parties have agreed to a resolution of this rate case that will result in no increase in electric revenues recovered through customer rate schedules over the revenues established in the 2017 test year rate case and no changes to the rates in those customer rate schedules for the 2020 test year. The Company represents that this result is possible in part based on the Company’s expectation that it will realize greater operational efficiencies and cost reductions in the test year than those reflected in the revenue requirements stated in the Application. Due to the high-level nature of this global settlement, the Parties will not be submitting a statement of probable entitlement and a results of operations. Since, based on this settlement agreement, the Company is not seeking interim rate relief, the Parties request the Commission to approve this settlement agreement in the form of a final decision and order that results in the proposed conclusion to Hawaiian Electric’s 2020 test year rate case.

² \$1.749 million of these ECRC revenues will permanently be unrecovered because the Company herein agrees not to adjust the non-adjustable rate component of the ECRC. In the 2020 test year, estimated purchased power adjustment clause (“PPAC”) revenues remain virtually unchanged. The remainder of the \$7.875 million increase is due to the change in the target heat rate that the Company is agreeing not to change at this time. The ECRC and PPAC revenues will be adjusted according to the ECRC and PPAC tariffs but subject to the limitations set forth by the target heat rate and the fossil fuel cost risk sharing provisions in the ECRC tariff. The Parties acknowledge that this agreement on target heat rate terms and administration is solely for the purpose of achieving a global settlement in this rate case, and both Parties retain their rights to pursue future adjustments to target heat rate terms and administration as provided in the ECRC tariff.

More specifically, the Parties agree to the following for revenues: 1) No changes in the rates established to implement the final 2017 test year revenue requirement; the Company does not intend any increase or decrease from the revenues that would be realized from sales under the existing customer rate schedules; 2) As a simplification in support of no change in the revenues that would be realized from sales, there is no shift in cost recovery from surcharges to revenues that are recovered from customer rate schedules. Cost recoveries that would have been re-assigned to customer rate schedule rates as part of the rate case process are proposed to remain in the respective surcharges (Rate Adjustment Mechanism (“RAM”) Revenue Adjustment, Major Projects Interim Recovery (“MPIR”), Renewable Energy Infrastructure Program Cost Recovery Provision (“REIP”), Demand Side Management Adjustment (“DSM”)) until completed or until the remaining balances are moved to recovery through customer rate schedules in a future rate case or general rate setting proceeding; 3) No changes in the customer service charges and credits that are included in Rules No. 6, No. 7, and No. 8, respectively; 4) Target revenue is the target revenue established by the 2017 test year final revenue requirements, as adjusted by MPIR, RAM, and other applicable adjustments.

In its direct testimony, the Company proposed to move revenues in the RAM, MPIR, and DSM into base rates on the implementation of an interim or final rate decision.³ The Company also notes that recovery for Schofield Generating Station (“SGS”) in the MPIR is subject to a 90% cap,⁴ and that the existing REIP was set to recover \$1,412,861 excluding revenue taxes for the Demand Response Management System (“DRMS”)⁵ compared to \$4,187,129 in actual DRMS costs as of October 2019.⁶

As discussed in greater detail later in this settlement agreement, the Parties agree to retain the RAM, MPIR, and DSM revenues in their respective surcharges. In other words, the Company would not move RAM, MPIR, or DSM revenues into base rates, but rather those revenues would remain within their respective surcharge. The Parties agree that the Commission should authorize Hawaiian Electric to recover 100% of its SGS costs in the MPIR adjustment mechanism. In addition, the Parties propose to continue recovery of the entire amount of the costs for the DRMS through the existing REIP cost recovery provision.⁷

In addition to and in conjunction with the agreements set forth in this document, the Parties agree to the following:⁸

- The Energy Cost Recovery Clause (“ECRC”) and Purchased Power Adjustment Clause (“PPAC”) will continue and be updated, and the Company will accrue, bill and collect associated revenues in accordance with the ECRC and PPAC tariffs and applicable Commission orders, unless otherwise specified in this settlement agreement; in addition,

³ HECO T-27 at 55.

⁴ Decision and Order No. 33178 (“D&O 33178”), Docket No. 2014-0113, filed September 29, 2015, at 58.

⁵ Order No. 37102, Docket No. 2015-0411, filed April 21, 2020, at 5.

⁶ Hawaiian Electric DRMS Project Production Cutover Status Update and Final Cost Report, Attachment A at 1.

⁷ Order No. 37012 in Docket No. 2015-0411, filed February 27, 2020, as clarified by Order No. 37102, filed April 21, 2020.

⁸ Additional information can be found in the Rate Design section of this Exhibit 1.

the deadband around the LSFO target heat rate in the ECRC will be modified to +/- 225 Btu/kWh-sales.

- The RAM Revenue Adjustments and the Revenue Balancing Account (“RBA”) provision will continue and be updated, and the Company will accrue, bill and collect associated revenues in accordance with the RAM provision and RBA provision tariffs and applicable Commission orders, unless otherwise specified in this settlement agreement.
 - The RAM Revenue Adjustment in effect shall not terminate with the issuance of an interim or final decision and order in this proceeding.
 - In addition, the Company may implement its proposed change to the monthly RBA allocation factors, to be set on the number of days in the month, to be effective January 1, 2021, and implement its proposed application of the RBA rate adjustment to customer bills on a percentage of base bill basis, to be effective June 1, 2021.
- The recovery of costs through the MPIR adjustment mechanism shall continue and be updated in accordance with the approved MPIR Guidelines and applicable Commission orders, unless otherwise specified in this settlement agreement, and shall not be incorporated into base rates until the next rate case or general rate setting proceeding.
- The recovery of costs through the DSM surcharge and the Demand Response Adjustment Clause (“DRAC”) shall continue and be updated in accordance with the Integrated Resource Planning (“IRP”) cost recovery provision tariff and applicable Commission orders, unless otherwise specified in this settlement agreement, and shall not be incorporated into base rates until the next rate case or general rate setting proceeding.
- The recovery of costs through the REIP cost recovery provision shall continue and be updated in accordance with the REIP cost recovery provision tariff and applicable Commission orders, unless otherwise specified in this settlement agreement, and cost recovery of the amounts for the DRMS system not currently included in the REIP shall be recovered through the REIP and shall not be incorporated into base rates until the next rate case or general rate setting proceeding.
- The pension and OPEB tracking mechanisms will continue to operate in accordance with applicable Commission orders and as specified below.

DEMAND RESPONSE

In its direct testimony, HECO T-14 at pages 25-32 and HECO-1415, the Company discussed Customer Energy Resources, Operations Division’s⁹ (“CERO” formerly known as Demand Response Division “DR”) core responsibility to continuously evaluate, develop, and implement an economic and technical means by which customers can use their own distributed energy resources and associated behavior to participate in the delivery of grid services. The Company contended that this will result in a more flexible and reliable grid on the one hand and economic opportunity and the empowerment of customer choice on the other. The Company further contended that these economic and technical means take the form of various time-based rates as

⁹ See HECO T-14, pages 31-32 and CA-IR-590 for details on the creation of the Customer Energy Resources, Operations Division resulting from the merger of the Demand Response and Distributed Energy Resource Divisions.

well as event and availability-based DR opportunities that will compensate customers for their efforts. The Company further contended that the CERO Division is aligned with the Company's transformational strategy to enhance customer experience, promote new product and services offerings, help modernize the grid and technology platforms and facilitate the delivery of cost-effective clean energy options.

In alignment with the above strategy, the CERO Division included various test year costs for the administration and maintenance of new and existing DR programs, procurements and rates as well as costs to implement the DRMS and related maintenance costs. CERO's 2020 test year proposal of demand response related costs resulted in a significant increase compared to the costs approved in the Hawaiian Electric 2017 test year rate case in Docket No. 2016-0328 due primarily to the inclusion of implementing the new grid service portfolio via the contracted aggregator and inclusion of DRMS costs as described above. In this settlement proposal all incremental budgets for new DR program¹⁰ and initiative costs will be removed from the 2020 test year rate case request. The current recovery of DR related 2017 test year approved costs included in base rates will continue (example: headcount and administration costs) and therefore is not discussed further in this agreement. Hawaiian Electric instead proposes to continue to recover the variable expenses for the new DR programs (specifically, incentive payments paid to program participants, and outside service expenses paid to aggregators dependent on the delivery of grid services) through the DSM surcharge, until such costs are included in base rates as ordered by the Commission in the DR Policy Statement and subsequent Commission orders.^{11,12} The variable expenses recovered through the DSM surcharge will be reconciled to the actual expenses incurred through a quarterly reconciliation. Similarly, the Company also proposes continued recovery of Commission approved DRMS costs through the REIP surcharge until such costs are reflected and approved in base rates in the next rate case or general rate setting proceeding. Below are further details on the proposed recovery for these DR costs.

Legacy Programs and IDRPP

Based on comparison of historical actuals dating back to 2017, the Company adjusted the budget required for the legacy DR programs which were reflected in the Company's 2020 test year estimates. The legacy DR programs consist of programs such as Residential Direct Load Control ("RDLC"), Commercial and Industrial Direct Load Control ("CIDLC"), Small and Medium Business Direct Load Control ("SBDLC") and Fast DR. The majority of these programs have been in operation for over a decade. The legacy incentives are defined as a variable expense, because the monthly incentive amount changes based on the customer's participation level in a

¹⁰ See HECO-1415 (DR Narrative) and HECO-WP-1402H, pages 10-12 for details on these new programs: 1) Fast Frequency Response; 2) Capacity Load Build; 3) Capacity Load Reduction that are proposed to be implemented through the Grid Services Purchases Agreement.

¹¹ See Order No. 32054 (at 114-15), *Policy Statement and Order Regarding Demand Response Programs* ("DR Policy Statement"), issued on April 28, 2014, and Order No. 33027 (at 59), *Appointing a Special Advisor to Guide, Monitor, and Review IDRPP Design and Implementation*, issued on July 28, 2015, in Docket No. 2007-0341.

¹² In Order No. 36453 (at 23), issued on August 5, 2019, in Docket No. 2015-0412, the Commission approved Hawaiian Electric's DRAC, which will enable the reconciliation of the level of variable costs for DR programs established in an approved rate case revenue requirements against those variable costs actually incurred in the operation of DR programs.

DR program. The Commission issued Order No. 36453 on August 5, 2019 in Docket No. 2015-0412 authorizing the use of the DRAC to manage the legacy DR programs' incentive amount of \$4,588,608 per year. Every quarter, the Company reconciles the over/under collection of the incentives budget against the actual costs incurred and uses the DRAC as an adjustment clause on customer bills. The Company recognizes the need to more closely align baseline legacy DR programs incentive costs to actuals. However, in light of more recent circumstances explained in this filing to maintain existing base rates approved in the Hawaiian Electric 2017 test year rate case and for purposes of reaching a global settlement in this proceeding, the Parties agree that the Company shall continue recovery of the legacy DR programs' incentive costs at the 2017 test year rate and continue to perform quarterly reconciliations through the DRAC.

Grid Service Purchase Agreement

In accordance with Order No. 35238 issued on January 25, 2018 in Docket No. 2015-0412, the Commission approved the use of the DSM component of the IRP cost recovery provision for the collection of DR Portfolio variable costs until such costs are approved and reflected in the Companies' respective base rates (see D&O 35238, page 111). Subsequently, the Commission approved the first aggregator contract known as the Grid Service Purchase Agreement ("GSPA") in Order No. 36467 issued on August 9, 2019 in Docket No. 2007-0341, which approved recovery of the GSPA costs (not to exceed a total of \$19,462,107) via the DSM surcharge. In the Company's direct filing in this proceeding, it had proposed to include test year aggregator costs in base rates.¹³ The Company recognizes the intent to establish a baseline for the collection of DR Portfolio variable costs in base rates. However, in light of more recent circumstances explained in this filing to maintain existing base rates approved in the Hawaiian Electric 2017 rate case and for purposes of reaching a global settlement in this proceeding, the Parties agree that the Company shall continue recovery of the GSPA costs, as well as the costs associated with any additional executed GSPA Commission approved contracts through the DSM surcharge mechanism until those costs can be included in base rates in a future rate case or general rate setting proceeding.

Demand Response Management System

In Decision and Order No. 34884 ("D&O 34884") issued on October 18, 2017 in Docket No. 2015-0411, the Commission approved the Company's request to recover the revenue requirement associated with the deferred costs and other project-related costs for the DRMS through the REIP surcharge until such costs are reflected in base rates. The Commission also approved the Company's request to include the unamortized deferred costs (including applicable carrying costs) in rate base in the Company's next respective rate case. (See D&O 34884, pages 68-69 for details.) The Company proposed to include in the 2020 test year DRMS amortization costs, the associated deferred average balance,¹⁴ and the annual software support and maintenance (M&S) expenses¹⁵ for inclusion in base rates. The Company recognizes the intent to ultimately transition the DRMS costs currently being recovered through the REIP surcharge into base rates. However, in light of more recent circumstances explained in this filing to

¹³ Detailed in HECO-WP-1402H at 10-12.

¹⁴ See supplemental response to CA-IR-122, Attachment 13, filed on March 16, 2020.

¹⁵ See HECO-WP-1402H at 5 for details.

maintain existing base rates approved in the Hawaiian Electric 2017 rate case and for purposes of reaching a global settlement in this proceeding, the Parties agree that the Company continue recovery of the DRMS costs as approved in Docket No. 2015-0411 or other applicable proceeding through the REIP surcharge mechanism until those costs can be included in base rates in a future rate case or general rate setting proceeding.

GRID MOD PHASE 1 RECOVERY THROUGH THE MPIR

On May 28, 2019, the Commission issued Order No. 36334, *Clarifying Decision and Order No. 36230, filed March 25, 2019*, in Docket No. 2018-0141 approving the Company's recovery of deferred Phase 1 Grid Modernization system development costs via the MPIR adjustment mechanism if Hawaiian Electric's meter headend and MDMS components are not in service in its 2020 test year. The estimated in-service date of the Grid Mod Phase 1 deferred costs is November 2020 and will be amortized over a 12-year period beginning the month following the go-live date. See description of the project in HECO T-9 and HECO-901, and breakdown of costs at HECO-902.

The Parties agree that the recovery of the total costs for Phase 1 Grid Modernization, including the MDMS and meter headend components, through the MPIR adjustment mechanism shall continue and shall not be incorporated into base rates until the next rate case or general rate setting proceeding.

WEST LOCH PV PROJECT RECOVERY THROUGH THE MPIR

On December 10, 2019, the Commission issued Decision and Order No. 36843 in Docket No. 2016-0342, which among other things, approved Hawaiian Electric's request to recover its capital expenditures associated with the West Loch PV Project through the MPIR adjustment mechanism. The West Loch PV Project was placed into service on November 19, 2019.¹⁶ As shown in Schedule L2 and HECO-WP-L2-001 filed on March 31, 2020, in Transmittal No. 20-01, the West Loch PV Project had a gross plant in service balance of \$51,437,408 as of December 31, 2019.

The Parties agree that the recovery of costs for the West Loch PV Project through the MPIR adjustment mechanism as approved by the Commission in Docket No. 2016-0342 shall continue and shall not be incorporated into base rates until the next rate case or general rate setting proceeding.

SGS PROJECT CAPITAL COST RECOVERY THROUGH THE MPIR

Background on MPIR Recovery

In D&O 33178, the Commission ordered two separate caps for the SGS Project:

¹⁶ *Attestation of Functionality and Availability; Report of Remaining Reliability Testing and Punch List Issues; Status of Substantial Warranties; and Ongoing Services Provided by Contractors*, filed on December 13, 2019, in Docket No. 2016-0342.

2. The commission approves a cap of \$167 million for the SGS Project costs, adjusted for the exchange rate as ordered in the following paragraph. HECO shall take all steps necessary to lock in a Euro to dollar exchange rate that is the lowest rate possible.

3. The commission approves a cap on the amount of total costs that may be recovered through any cost recovery mechanism other than base rates at 90% of \$167 million. The \$167 million cap shall further be adjusted downward due to any reduction in the cost of the Wartsila contract due to a reduction in the foreign exchange rate. In addition, any requested cost recovery outside of base rates may only be made in accordance with Order No. 32735.¹⁷

In accordance with D&O 33178, Hawaiian Electric locked in an effective rate of \$1.0928/euro, which resulted in lowering the cost of the Wärtsilä contract by \$9,700,000 which adjusted the project cap down to \$157,300,000¹⁸ compared to the original \$167,000,000 cap.

On August 14, 2017, Hawaiian Electric filed an application requesting Commission approval to commence cost recovery of \$141,570,000 (90% of the \$157,300,000 in capped Project costs, as authorized in D&O 33178) for the authorized costs of the SGS Project through the MPIR adjustment mechanism in Docket No. 2017-0213.

On June 27, 2018, the Commission issued Decision and Order No. 35556 (“D&O 35556”), which approved Hawaiian Electric’s request to recover its capital expenditures associated with the SGS Project through the MPIR adjustment mechanism. Among other things, the Commission ordered that the Company may begin to accrue its costs for the SGS Project beginning from the first full month following Hawaiian Electric’s completion of the in-service criteria with recovery of Hawaiian Electric’s approved SGS Project costs to be incorporated as part of Hawaiian Electric’s annual decoupling tariff filings until such approved Project costs are included in the Company’s next general rate case.¹⁹

SGS Project Plant Additions

The SGS Project was placed into service on June 7, 2018.²⁰ Direct testimony included a 2020 test year gross plant in service balance of \$146,655,484 for the SGS Project.²¹ As shown in HECO-WP-L1-001 filed on March 31, 2020, in Transmittal No. 20-01, the SGS Project had gross plant in service balances of \$144,743,542 and \$146,382,930 as of December 31, 2018 and December 31, 2019, respectively. The 2020 estimated net plant addition for the project is \$672,025 as shown in CA-IR-122 Attachment 7 (Supplement 2/24/2020), page 19. The Company projects that the gross plant in service balance for the project at December 31, 2020 will be approximately \$147,054,955. This amount is significantly less than the original project

¹⁷ D&O 33178 at 84-85.

¹⁸ *Notification of Euro Exchange Rate and Adjusted Project Cap* filed on January 27, 2016, in Docket No. 2014-0113 at 1.

¹⁹ D&O 35556 at 67.

²⁰ *Attestation of Functionality, Availability, and Satisfaction of Substantial Completion Criteria, and Report of Remaining Reliability Testing and Punch List Issues* filed on June 29, 2018, in Docket No. 2017-0213.

²¹ HECO-WP-2413A, page 2 (\$144,743,542) + HECO-WP-1525, page 5 (\$1,911,942) = \$146,655,484.

cap of \$157,300,000 (\$167,000,000 as approved by D&O 33178 as adjusted by the reduction in the cost of the Wärtsilä contract due to a reduction in the foreign exchange rate).

Settlement

The Company is currently recovering \$141,570,000 of SGS Project costs through the MPIR adjustment mechanism as shown in Schedule L1 (Revised 02/07/19) and in HECO-WP-L1-001 filed on May 28, 2019, in Transmittal Nos. 19-01, 19-02, and 19-03 (Consolidated),²² which is based on the 90% cap on the amount of the total costs that may be recovered through any cost recovery mechanism other than base rates established by D&O 33178.

The Parties agree that the recovery of the SGS project costs through the MPIR adjustment mechanism should continue until the costs are incorporated into base rates in a future rate case or general rate setting proceeding. Because the costs of the project will not be incorporated into base rates in this rate case, and because the next rate case or general rate setting proceeding may be in five years depending on the outcome of the PBR proceeding (Docket No. 2018-0088), the Parties agree that, for purposes of reaching a global settlement, the 90% cap should be removed such that recovery of 100% of allowed SGS Project costs, will flow through the MPIR adjustment mechanism, effective at the approval date of this settlement agreement. As a result, recovery of SGS Project costs through the MPIR adjustment mechanism would be capped at the original project cap of \$157,300,000 (\$167,000,000 as approved by D&O 33178 as adjusted by the reduction in the cost of the Wärtsilä contract due to a reduction in the foreign exchange rate) instead of the current MPIR recovery cap of \$141,570,000. The Company will submit revised RBA tariff sheets 92E and 92F reflecting the updated target revenue in effect when this provision of the settlement agreement is approved. Recovery of the 2020 actual net plant addition for the project (currently estimated at \$672,025 as shown in CA-IR-122 Attachment 7 (Supplement 2/24/2020), page 19) will be proposed for recovery through the annual MPIR filing in February 2021.

The recovery of the SGS project costs through the MPIR adjustment mechanism will still be monitored in accordance with the MPIR Guidelines²³ set forth in paragraph III.C.4.d. as follows:

Collection and reconciliation of revenues recovered through MPIR adjustments shall be implemented through the utility's RBA Rate Adjustment and RBA tariff provisions. The accrual, collection and reconciliation of revenues through the MPIR adjustment mechanism for each Major Project, Deferred Cost Project or O&M Project shall be documented and reviewed in the filing and review of the

²² See *Parties Stipulated Revision to Reply Statement of Position*, Scenario 4, filed on May 28, 2019 in Transmittal Nos. 19-01, 19-02, and 19-03 (Consolidated). The Commission issued Order No. 36336 on May 29, 2019, in Transmittal Nos. 19-01, 19-02, and 19-03 (Consolidated), which, among other things, approved Hawaiian Electric's Transmittal No. 19-01, Scenario #4.

²³ The Commission's MPIR Guidelines ("MPIR Guidelines") are set forth in Attachment A to Order No. 34514 *Establishing Performance Incentive Measures and Addressing Outstanding Schedule B Issues*, issued on April 27, 2017 in Docket No. 2013-0141.

utility's RBA transmittals filed on or before March 31 of each year, in accordance with the utility's RBA tariff.

SGS PROJECT O&M COST RECOVERY THROUGH THE MPIR

On December 14, 2018, the Commission issued Order No. 35953 in Docket No. 2017-0213, which among other things, approved Hawaiian Electric's request to recover its O&M costs for the SGS Project through the MPIR adjustment mechanism on an interim basis until the Project's costs are included in Hawaiian Electric's base rates and denied Hawaiian Electric's request to commence accrual of the O&M costs in the MPIR adjustment mechanism retroactive to July 1, 2018, and instead allowed the Company to begin accruing the Project's O&M costs as of October 1, 2018, based on the submission date of Hawaiian Electric's Business Case Analysis.

The Parties agree that the recovery of O&M costs for the SGS Project through the MPIR adjustment mechanism as approved by the Commission in Docket No. 2017-0213 shall continue and shall not be incorporated into base rates until the next rate case or general rate setting proceeding.

PENSION/OPEB TRACKING MECHANISMS

Pension/OPEB Cost Revision

In its direct testimony, the Company provided its test year pension and OPEB estimates in HECO T- 18 and HECO-T-16. In the response to CA-IR-122, Attachments 11 and 12, the Company provided updates for pension and OPEB expense and the pension and OPEB regulatory asset balances based on actual information through December 31, 2019, updated pension and OPEB estimates for 2020 with information provided by Willis Towers Watson, and assumed an interim decision to reset base rates and the pension tracker as of August 1, 2020.

For purposes of settlement in this proceeding, the Parties agree that the pension and OPEB tracking mechanisms are reset when this settlement is approved by the Commission, based on the NPPC and NPBC estimated for 2020 and utilized in the response to CA-IR-122, and amortization based on the balance of pension regulatory asset, non-service costs regulatory asset, and the OPEB regulatory liability estimated as of June 30, 2020, beginning when this settlement is approved by the Commission. Updated Attachments 11 and 12 of CA-IR-122 to reflect the reset of the pension and OPEB tracker as of July 1, 2020 are provided in HECO T-16 Attachments 1 and 2, Final Settlement.²⁴

Pension and OPEB Expenses

	Direct <u>Testimony</u>	<u>CA-IR-122</u>	<u>Settlement Agreement</u>
<u>Expense (Benefit)</u>			
<u>Pension:</u>			
1 Net periodic pension cost	\$36,610,000	\$50,839,000	\$50,839,000

²⁴ Hawaiian Electric reserves the right to request Commission approval of recovery of increased Company matching contributions to the 401(k) plan outside of a rate case if the need arises. The Consumer Advocate similarly reserves the right to address and respond to any such request when and if recovery is sought.

Amortization:				
2	Pension tracking regulatory asset	7,107,000	8,323,000	8,708,000
3	Non-service cost regulatory asset	<u>382,000</u>	<u>394,000</u>	<u>382,000</u>
4	Total pension expense	\$44,100,000	\$59,556,000	\$59,929,000

<u>OPEB:</u>				
5	Net periodic benefit cost	\$ -	\$ -	\$ -
6	Amortization – OPEB tracking regulatory liability	<u>(230,000)</u>	<u>(222,000)</u>	<u>(230,000)</u>
7	Total OPEB expense	\$(230,000)	\$(222,000)	\$(230,000)

Hawaiian Electric’s direct testimony estimates included a pension non-service cost regulatory asset consistent with the agreement reached with the Consumer Advocate in the 2017 test year rate case, Docket No. 2016-0328, to address changes to Accounting Standards Codification (“ASC”) 715 based on the Financial Accounting Standards Board (“FASB”) issuance of Accounting Standards Update (“ASU”) 2017-07. ASU 2017-07 limits the amount of pension expense that can be capitalized to only the service cost component of NPPC and NPBC. The agreement in the 2017 test year rate case stipulated amortizing the regulatory asset over 15 years, beginning with the effective date that rates are in effect in the next rate proceeding. In Hawai‘i Electric Light Company, Inc.’s (“Hawai‘i Electric Light’s”) 2019 test year rate case, the Parties agreed to amortize the regulatory asset over five years. Consistent with the agreement in the Hawai‘i Electric Light 2019 test year rate case, the Parties agree the non-service regulatory asset as of June 30, 2020 will be amortized over five years beginning when the Commission approves this settlement agreement.

Pension / OPEB Tracker Revisions

In its direct testimony (HECO T-16 at 9), the Company proposed to follow the accounting changes required by ASU 2017-07 for both financial reporting and ratemaking purposes and proposed revisions to the Pension/OPEB tracking mechanisms to account for this. As noted above, ASU 2017-07, which became effective for the Hawaiian Electric Companies²⁵ on January 1, 2018, limits the amount of pension expense that can be capitalized to not exceed the service cost component of NPPC and NPBC. Prior to ASU 2017-07 becoming effective for financial reporting purposes, all components of pension and OPEB costs were eligible for capitalization and were included in the Company’s employee benefits transfer rate, which is utilized to determine the portion of employee benefits allocated to capital projects or to other projects.

In the 2017 test year rate case, Docket No. 2016-0328, the Company and the Consumer Advocate agreed to a modification to the pension and OPEB tracking mechanism, to be in effect from 2018 until a decision in Hawaiian Electric’s next rate case, to set up a separate regulatory asset to accumulate the non-service cost portion of the test year NPPC and NPBC that is included in the transfer to capital in the test year that would be expensed under ASU 2017-07. The regulatory asset would be amortized to expense over fifteen years, beginning with the effective

²⁵ The “Hawaiian Electric Companies” or “Companies” are Hawaiian Electric, Hawai‘i Electric Light, and Maui Electric Company, Limited (“Maui Electric”).

date that rates are effective in the next rate case proceeding. The decision on the full implementation of ASU 2017-07 for ratemaking would be determined in the next rate case. The Commission approved the stipulated agreement in Final Decision and Order No. 35545 filed on June 22, 2018.²⁶

The non-service cost regulatory asset is based on the amounts that have been recorded since January 2018 for the non-service cost portion of the NPPC included as part of the employee benefits capitalized in rates. Exhibit HECO-1602, page 3, provides the roll-forward of the non-service cost regulatory asset from the beginning of 2018 and recorded through December 31, 2018, and estimated through June 30, 2020. The 2017 test year estimate for NPBC was \$0, and accordingly, a non-service cost component for NPBC has not been recorded as a regulatory asset.²⁷

The Consumer Advocate, in its filed testimony in the Hawai'i Electric Light 2019 test year rate case, Docket No. 2018-0368, recommended that Hawai'i Electric Light's non-service cost regulatory asset be amortized over five years. Consistent with that recommendation, the Parties here agree to a five-year amortization effective as of the date of approval of this settlement agreement.

For the 2020 test year and for the period that rates are in effect from this proceeding, the Parties agree that Hawaiian Electric should follow ASU 2017-17 for both ratemaking and financial reporting purposes.

Accordingly, the Parties agree to a revision to the existing pension and OPEB tracking mechanisms, as shown in HECO-1601, Attachment 1 and HECO-1601, Attachment 2, respectively. The Parties recognize that the continuation of regulatory accounting for financial reporting purposes is an issue under consideration in the PBR Docket No. 2018-0088. Nothing within this settlement agreement is intended to restrict either the Hawaiian Electric Companies or the Consumer Advocate to any positions in the PBR Docket regarding regulatory accounting matters.

AMORTIZATION

The O&M expenses for the 2020 test year include amortization of various deferred costs. As presented in HECO-1605, the Company proposes the continuation of the amortization proposed and agreed to in the 2017 test year rate case. In addition, the Company proposes the following treatment for those deferred cost and regulatory liabilities that have been updated since the 2017 rate case or were not included in the 2017 rate case.

²⁶ HECO T-16 at 7.

²⁷ HECO T-16 at 7-8.

ERP Deferred System Development Costs

With respect to ERP deferred system development costs, the Parties agreed in the 2017 test year rate case to delay the commencement of the amortization of the ERP/EAM deferred project costs until such amounts are included in Hawaiian Electric Companies' future rate case subsequent to the go-live date.²⁸ The 2020 test year average balance of the deferred cost and the annual amortization amount were presented in the Company's supplemental response to CA-IR-122 Attachment 13 updating the information provided in HECO-1605. As part of this settlement agreement, the Parties agree to begin the amortization of the deferred ERP system development costs over a 12-year period, and include the deferred costs in rate base, as of Commission approval of this agreement.

ERP Benefits Regulatory Liability

In the 2017 Settlement on Remaining Issues, the Parties agreed that the Company would establish a regulatory liability account to record the estimated amount of net savings enabled by the ERP system that exceed ERP system related expenses not being recovered in base rates so that such amounts could be returned to ratepayers in future rate case proceedings.²⁹ The Company's supplemental response to CA-IR-122, Attachment 6, updating the initial estimate presented in HECO-1508 provided the estimated net benefits amount accumulated as of July 31, 2020. In conjunction with the commencement of the amortization of deferred system development cost of the ERP system, the Company proposes to start amortization (over 5 years) of the ERP benefits regulatory liability balance upon approval of this settlement agreement. The associated ERP benefits for 2020 shall be considered flowed through to customers as part of the no increase in electric revenues recovered through customer rate schedules over the revenues established in the 2017 test year rate case and the no change to base rates outcome for this rate case.

In addition, on-going ERP support O&M expenses (HECO-WP-1707, T-17 pages 41-42, CA-IR-301) and on-going ERP O&M benefits (HECO-1507) were included in the Company's 2020 test year revenue requirement and shall be considered incorporated as part of the no increase in electric revenues recovered through customer rate schedules over the revenues established in the 2017 test year rate case and the no change to base rates outcome for this rate case. As a result, as of the approval date of this settlement agreement, net benefits shall no longer be recorded in the ERP benefits regulatory liability account.

The Parties agree that the ERP capital cost benefit and the tax deferred benefit of the repairs deduction are not captured in the ERP benefit regulatory liability on an ongoing basis.³⁰ In

²⁸ *Parties' Stipulated Settlement Letter* ("2017 Settlement on Remaining Issues") filed on November 15, 2017 in Docket No. 2016-0328, Exhibit 1, page 61.

²⁹ 2017 Settlement on Remaining Issues, Exhibit 1, page 61.

³⁰ See Order No. 36166, Docket No. 2014-0170, pages 12-14. The stipulation between the Consumer Advocate and the Hawaiian Electric Companies stated that O&M benefits between rate cases would be placed in a regulatory liability account. Capital and tax benefits will inure to customers through lower overall capital project and program costs, as well as through higher levels of tax deductions. These benefits will result in lower overall

January 2019, the Companies filed an updated estimate of total ERP/EAM System benefits, which showed a shift of tax repairs benefit to 2021.³¹ In July 2019, the Companies filed their final estimate of tax repairs benefits, confirming tax repairs benefits would start in 2021,³² which was accepted by the Commission in Order No. 36449.

Unamortized Gain on Sale of Land

As discussed in HECO T-16 page 35, gains on the sale of land and the Iolani Court Plaza lease premium are amortized over a five-year period beginning in the month following the sale, and the amount of unamortized gain is included in rate base as a source of funds from non-investors (i.e., a deduction). The Company's supplemental response to CA-IR-122 Attachment 14 updating the estimated balances for the 2020 test year presented in HECO-1609 provided the unamortized gain on sales balance as well as the annual amortization amount. The Company proposes to begin amortizing the unamortized balance over a five-year period upon approval of this settlement agreement.

Regulatory Commission Expense

The direct non-labor expense incurred for the rate case is deferred and amortized over a period of three years following approval of this settlement agreement. The unamortized regulatory commission expense is not included in rate base as a regulatory asset.

Due to the timing of the commencement of amortization, the Company continues to amortize the direct non-labor expense incurred for the 2017 test year rate case in 2020. This amount was not included in the calculation of the 2020 test year regulatory commission expense. As part of this settlement agreement, the Parties agree (1) the remaining amounts of the 2017 test year rate case deferred costs continue until fully amortized; and (2) the direct non-labor expense incurred and accumulated for the 2020 test year rate case, including expenses for outside legal and consulting fees incurred for the management audit, will begin amortization over a five-year period effective on the date of an order approving this settlement agreement.

With respect to the costs incurred in the PBR docket, the Company reflected its test year estimates for Hawaiian Electric's allocable share of outside service costs for PBR and other regulatory proceedings as an O&M expense (HECO-WP-1502F lines 14 and 16). For the purpose of global settlement, the Parties propose to record PBR and other regulatory proceedings costs as normal, ongoing operating expenses with no deferral and amortization, as the Company expects to incur similar levels of costs throughout the rate period.

future rate base. The Companies proposed to pass capital and tax benefits on to customers through the annual [decoupling] rate adjustment mechanism filings and through future rate cases.

³¹ See Hawaiian Electric Companies' Response to Commission Order No. 35475; Docket No. 2014-0170; filed January 4, 2019; page 16

³² See Companies' Updated Response to PUC Order Nos. 36259 and No. 36285; Docket No. 2014-0170; filed July 9, 2019; Attachment 1.

Amortization Period of State Investment Tax Credit

The Hawaiian Electric Companies' position regarding the treatment of state investment tax credit ("ITC")³³ is that state ITC should be amortized over the same period as the depreciable life of the related assets. An amortization period of 40 years, which is the approximate useful life of the assets giving rise to the credits, would thus match the depreciation (i.e., cost recovery) of the assets and the amortization of the tax credit, resulting in a cost of service that reflects the true cost of providing service.

In Hawaiian Electric's 2017 and Maui Electric's 2018 test year rate cases, the Consumer Advocate proposed an accelerated ten-year amortization period, based on the perspective of enabling current customers to receive the benefits of state ITC tax savings faster, offsetting the front-loaded revenue requirements for new capital investments and reducing the current revenue requirement. For the purpose of global settlement, Hawaiian Electric and Maui Electric agreed to the 10-year amortization in their respective rate case.

In Hawai'i Electric Light's 2019 test year rate case, Hawai'i Electric Light advocated for the continued use of a 40-year amortization period and the Consumer Advocate again proposed the 10-year accelerated amortization period. In addition to the rationale of reducing current revenue requirement for current customers, the Consumer Advocate argued that Hawai'i Electric Light should also apply the same accelerated amortization period to be consistent with Hawaiian Electric and Maui Electric.³⁴ Hawai'i Electric Light countered that the adoption of the accelerated amortization period by Hawaiian Electric and Maui Electric was made in an effort to simplify and expedite resolution of those proceedings as explicitly stated in the respective settlement agreements, and did not constitute an admission by any of the Companies with respect to the settled issues including the state ITC issue in those settlement agreements. In addition, the 40-year amortization period would promote matching of benefit to cost and intergenerational equity for customers.³⁵

For the purpose of reaching a global settlement, however, the Parties agree to accept the state ITC amortization period as decided by the Commission in the Hawai'i Electric Light's pending 2019 test year rate case final decision and order for consistent application to Hawaiian Electric as well.

³³ State ITC is earned when qualifying equipment is purchased and placed into service by businesses in Hawai'i, and consists primarily of the capital goods excise tax credit that was enacted in 1987 under HRS § 235-110.7. It was designed to promote capital investment and to mirror the qualification rules of the old federal investment tax credit.

³⁴ Hawai'i Electric Light's position against the accelerated amortization period in the 2019 test year rate case is consistent with all Commission decisions and orders in Hawaiian Electric and subsidiaries cases prior to the last Hawaiian Electric 2017 rate case in Docket No. 2016-0328.

³⁵ See detailed explanation in Opening and Reply Briefs of Hawai'i Electric Light in its 2019 test year rate case in Docket No 2018-0368. Order No. 144 presents the FERC's position advocating tax normalization, which is based on the matching principle, requiring the tax reducing effect of an expense to be allocated to the same customers who pay the expense generating the tax benefit.

Excess Accumulated Deferred Income Taxes

As discussed in HECO T-23 pages 20 to 26, Hawaiian Electric calculated the amortization of excess accumulated deferred income taxes (“ADIT”) for the three categories of excess ADIT in the following manner:

1. Plant-related protected ADIT subject to average rate assumption method (“ARAM”) normalization rules: amortization over 40 years, as agreed to in the 2019 decoupling filing.³⁶
2. Plant-related ADIT not subject to ARAM normalization rules: amortization over 15 years included in test year estimate; and
3. Non-plant related ADIT not subject to normalization rules: amortization over five-years included in test year estimate.³⁷

As proposed in HECO T-23 page 23, the Parties agree, as part of this Settlement that once the actual ARAM amortization calculation is completed, the Company will have the opportunity to true up the amortization amounts. ARAM true-ups would flow through amortization expense in the Decoupling/RAM filing following the computation of the annual ARAM amount. The related true-up would be captured in determining the rate of return in the Earnings Sharing Mechanism under PBR.

In addition, the Parties agree to the Company’s proposal to incorporate the adjustment to correct the inadvertent exclusion of the reclassification of certain related regulatory asset amortization bases between the two unprotected ADIT groups in the calculation of the associated amortization, as described in HECO T-23 pages 25 to 26. The nature of the error and the required correction were identical to that which was addressed and discussed in Hawai‘i Electric Light’s response to CA-IR-323 in its 2019 test year rate case in Docket No. 2018-0368, and the adjustments were incorporated in the Commission’s Interim Decision and Order No. 36761 issued on November 13, 2019.³⁸

³⁶ As noted in HECO T-23, page 23, the Commission approved the use of 40-year amortization period for the protected ADIT in the 2019 decoupling proceeding and was effective June 1, 2019.

³⁷ As noted in HECO T-23, page 24, the Commission approved the amortization amounts calculated based on amortization periods of five years for unprotected non-plant related ADIT and 15 years for unprotected plant-related ADIT in the Company’s 2017 test year rate case in Docket No. 2016-0328.

³⁸ See also Hawaiian Electric’s response to CA-IR-278 in this instant proceeding for additional discussion on the correction.

CRR BESS Project

In Decision & Order No. 36410 issued on July 8, 2019 in Docket No. 2018-0102 (“D&O 36410”), the Commission denied, without prejudice, the Company’s application to commit funds for a Contingency and Regulating Reserve (“CRR”) Battery Energy Storage System (“BESS”) project as the changed circumstances should be considered and addressed to determine if the Project, as proposed, is still reasonable and in the public interest.³⁹ These changed circumstances include new resources to come on line via the renewable dispatchable generation (“RDG”) purchase power agreements (“PPAs”) that were approved in March 2019,⁴⁰ other increased renewable generation and lower potential for a large-scale generation trip event, and the potential for procuring the same or similar contingency reserve and/or regulating reserve grid services through independent power producers or individual customers through demand response via a competitive procurement process currently underway (i.e., the Phase 2 Renewable and Grid Services Request for Proposals).^{41 42}

The costs incurred to date for the CRR BESS project are \$4,197,000. Although the Application for the CRR BESS project was denied without prejudice, the Company incurred these costs to advance the State’s defined energy policies to pursue obtaining more renewable energy for the O’ahu system. As part of this settlement agreement, the Parties agree the Company will amortize the CRR BESS project costs over a five-year period upon approval of this settlement agreement. This will lessen the impact for financial statement purposes.

ACCOUNTING FOR ASSET MANAGEMENT DIVISION COSTS

As described in HECO-309, the Asset Management Division of the Planning & Technology process area, is currently responsible for developing strategies to manage the Companies’ transmission and distribution (“T&D”) assets. The Asset Management Division’s costs in the 2020 test year are reflected as O&M expenses, consistent with the Company’s guidelines that state general planning work should be charged to expense as incurred. Prior to the implementation of SAP in 2018, the Asset Management Division’s costs were charged to the Energy Delivery clearing accounts (and allocated as an overhead to costs in the Energy Delivery area). Such was the case in establishing the now existing base rates in the Company’s 2017 test year rate case. However, as part of the Company’s review and set up of cost centers and charge codes during the implementation of SAP to ensure that costs were reflected in the appropriate accounts in the new system, process area charges were reviewed for consistency. The Asset Management Division’s overall planning work is more consistent with other general planning functions of the Company, whose costs for such work are charged to expense as incurred. As a result of the Company’s review, Asset Management Division’s costs have been charged to expense as incurred with the implementation of SAP in October 2018.

In line with recommendations in the Management Audit conducted as part of this case, Hawaiian Electric will be reorganizing the strategies and execution of T&D asset portfolio management.

³⁹ See D&O 36410 at 2.

⁴⁰ See Docket Nos. 2018-0430, 2018-0431, 2018-0432, 2018-0434, 2018-0435, and 2018-0436.

⁴¹ See Docket No. 2017-0352.

⁴² See D&O 36410 at 18-29.

Under the reorganization, the Asset Management Division will be called the Asset Planning & Strategy Division and will consist of three departments (Asset Programs, Reliability & Resilience, and Asset Analytics.) The Asset Programs and Reliability & Resilience Departments will continue to be responsible for the current planning and strategies of the T&D asset portfolio including addressing reliability and resilience, and will be expanded to be responsible to identify the specific projects/assets, and develop the pre-execution plans for the projects/assets identified. The expanded responsibilities were previously part of the Energy Delivery process area prior to the reorganization, and the work was charged to the Energy Delivery clearing account.

In the Stipulated Partial Settlement Letter in Hawai'i Electric Light's 2019 test year rate case dated September 24, 2019 between Hawai'i Electric Light and the Consumer Advocate, the parties agreed to the Consumer Advocate's position that the asset management consultant efforts should not all be charged to expense as proposed by Hawai'i Electric Light, but should be charged to the clearing account. The settlement reflected the portion of the clearing charges that would ultimately be reflected in O&M expense. As a result of Maui Electric's 2018 test year rate case, intercompany charges from Hawaiian Electric's Asset Management Division were forecasted to the Energy Delivery clearing account, and only a portion of the charges are reflected as expense in current rates. In Hawaiian Electric's 2017 test year rate case, the Asset Management Division's costs were forecasted to the Energy Delivery clearing account in setting existing base rates.

As a result of the reorganization described above, the previous Asset Management Division's work will be expanded to include more responsibilities that relate to specific capital work. As such, the work will provide support to both expense (strategies and planning) and capital (steps to pre-execution of a capital project), consistent with other work charged to the Energy Delivery clearing account.

As part of the settlement in this proceeding, the Parties agree that the Asset Programs and the Reliability & Resilience Departments' costs related to strategies, planning and pre-execution work will be charged to the clearing account, and allocated to expense and capital as part of the clearing process, instead of charging their costs to expense. Work related to specific capital projects will be charged to the capital project. This will standardize the treatment of the Asset Management Division costs (Asset Programs and Reliability & Resilience Departments) among the Hawaiian Electric Companies. The costs related to Asset Analytics Department, reliability reporting in the Reliability & Resilience Department and T&D Asset Management strategies related to vegetation management, substation maintenance, and T&D maintenance programs will continue to be charged to expense as incurred.

For illustrative purposes, the Company performed a proforma calculation to estimate the 2020 test year effect on labor and non-labor expense if the accounting for Asset Management Division costs related to asset strategies and planning are included in the Energy Delivery clearing process. As shown in HECO T-3, Attachment 1, Final Settlement, the total (labor and non-labor including overhead) 2020 test year estimate for this type of work is \$2,512,000. If the Asset Management Division departments charge their costs to the clearing process instead of directly

to expense, 2020 test year O&M expenses would be lower by \$1,889,000.⁴³ The change to include Asset Management Division's costs in the clearing account rather than expense as incurred (as described above) would be deemed effective as of the date of this settlement agreement.

CUSTOMER BENEFIT ADJUSTMENTS

Customer Benefit Adjustment

In the Parties' Stipulated Settlement on Remaining Issues, filed on March 5, 2018 in the Hawaiian Electric 2017 test year rate case, Docket No. 2016-0328 ("2017 Settlement on Remaining Issues"), Hawaiian Electric and the Consumer Advocate agreed that the Company would return to customers the full effect of the benefits related to a Net Pension Regulatory Asset Reduction through the following:⁴⁴

- A \$5,467,000 Customer Benefit Adjustment per year would be reflected in the Company's Results of Operations as a single line item that reduces operation and maintenance expenses (this amount totals \$6 million when grossed up for revenue taxes) and would be reflected in base rates
- The Customer Benefit Adjustment will remain in place until rates approved in the Company's next rate case go into effect
- Any balance remaining when rates for the Company's next rate case go into effect (2020 test year rate case) will be reflected as a Customer Benefit Adjustment in the Company's next rate case in the same fashion as in this rate case (i.e., a single line item adjustment that reduces operation and maintenance expense)

⁴³ Subsequent to the filing of the response to PUC-HECO-IR-32 (subpart f) on April 30, 2020, the Company became aware of certain corrections, as further discussed below, regarding the impact of the accounting for Asset Management Division costs if it were included in the Energy Delivery clearing process. The amounts noted in this filing, as shown in HECO T-3, Attachment 1, Final Settlement, supersedes the amounts that were originally filed in the response to PUC-HECO-IR-32 (subpart f).

After further review, the dollar amounts charged to clearing that were originally presented in the response to PUC-HECO-IR-32 (subpart f) were reduced by re-calculating costs that would remain as O&M expenses. Work to remain as O&M includes Asset Analytics Department work, reliability reporting, vegetation management analytics, data warehousing, and various administrative and general (A&G) expenses. This work associated with O&M initiatives and analytics do not necessarily lead to or support capital projects.

Labor hour reductions from PUC-HECO-IR-32 (subpart f) include the following: (1) removal of all Asset Analytics Department hours (total reduction of 5,568 hours); (2) reduction in Asset Programs Department hours, removing reliability reporting and vegetation management analytics labors (total reduction of 3,109 hours); and (3) reduction in Asset Management Administration Department hours, removing Asset Analytics Department support, reliability reporting, and A&G labors (total reduction of 2,979 hours). The total labor reduction is 11,656 hours. These reductions in labor hours reduced the initial labor cost by \$669,409 to \$974,728. Applying 75.21% to capital, the total labor dollar amount to charge to clearing is \$733,093.

Non-labor reductions from PUC-HECO-IR-32 (subpart f) include the following: (1) removal of all Asset Analytics outside services (total reduction of \$400,546); (2) reduction in Asset Programs non-labor, removing reliability reporting outside services (total reduction of \$152,000); and (3) reduction in Asset Management Administration outside services (total reduction of \$41,500). These reductions in non-labor dollars reduced the initial non-labor cost by \$594,046 to \$1,537,521. Applying 75.21% to capital, the total non-labor dollar amount to charge to clearing is \$1,156,370.

⁴⁴ 2017 Settlement on Remaining Issues, Exhibit 1, page 18.

- The amount of the Customer Benefit Adjustment in the Company's next rate case will be determined by amortizing the remaining balance over three years

In its Final Decision and Order No. 35545 in the Hawaiian Electric 2017 test year rate case, the Commission found Hawaiian Electric's method of returning the net Customer Benefit associated with the Pension and OPEB Tracker Adjustment to be reasonable⁴⁵ and reflected the Customer Benefit Adjustment in the approved results of operations for the 2017 test year.⁴⁶

Given the proposed outcome of this settlement of no increase in electric revenues recovered through customer rate schedules over the revenues established in the 2017 test year rate case and no changes to the rates in those customer rate schedules, the Parties agree that the requirements relating to the Customer Benefit Adjustment will terminate upon approval of this settlement agreement.

Customer Benefit Adjustment #2

In Interim Decision and Order No. 35100 in the Hawaiian Electric Company 2017 test year rate case, the Commission ordered the Company to make a downward adjustment of \$5 million to its interim revenue increase, representing a "hold-back" of interim revenues pending further examination of the Company's baseline plant additions.⁴⁷ In the 2017 Settlement on Remaining Issues, Hawaiian Electric and the Consumer Advocate agreed that the "hold-back" of \$5 million relating to baseline plant additions from 2014 through the 2017 test year ordered in Interim Decision and Order No. 35100 should be removed in any subsequent orders granting rate relief in this docket, including any additional interim orders and Final Decision and Order in the 2017 rate case, but further agreed to a \$5 million (grossed up for revenue taxes) Customer Benefit Adjustment #2 per year that would be reflected in the Company's Results of Operations as a single line item that reduces operation and maintenance expenses and will be reflected in final base rates in that rate case.⁴⁸ In Final Decision and Order No. 35545, the Commission found Customer Benefit Adjustment #2 to be reasonable, as it would conserve resources, facilitate a timely resolution of this proceeding, and provide an agreed-upon downward adjustment in rates for ratepayers⁴⁹ and reflected Customer Benefit Adjustment #2 in the approved results of operations for the 2017 test year.⁵⁰

As part of this global settlement, the Parties agree that any requirements relating to Customer Benefit Adjustment #2 will terminate upon approval of this settlement agreement.

CIAC ASSOCIATED WITH PROJECTS IN CWIP AND DEVELOPERS' ADVANCES

With respect to CIAC associated with projects in CWIP, in its Application the Company stated: (Application at 18-19)

⁴⁵ Final Decision and Order No. 35545, Docket No. 2016-0328, page 38.

⁴⁶ Final Decision and Order No. 35545, Docket No. 2016-0328, Exhibit A, page 1.

⁴⁷ Interim Decision and Order No. 35100, Docket No. 2016-0328, page 3.

⁴⁸ 2017 Settlement on Remaining Issues, Exhibit 1, page 19.

⁴⁹ Final Decision and Order No. 35545, Docket No. 2016-0328, pages 39-40.

⁵⁰ Final Decision and Order No. 35545, Docket No. 2016-0328, Exhibit A, page 1.

Hawaiian Electric is changing its presentation of CIAC to align with the Federal Energy Regulatory Commission (“FERC”) Uniform System of Accounts (“USOA”). As part of this transition, the Company proposes a change in rate base related to the treatment of CIAC associated with projects included within construction work in progress (“CWIP”). Under the proposed treatment, CIAC associated with projects in CWIP would be excluded from rate base, as CIAC is netted in CWIP, and CWIP is excluded from rate base. The prior treatment, all CIAC, including CIAC associated with CWIP was a deduction to rate base. Both the costs in CWIP and the associated CIAC will be included in rate base when the projects they relate to are considered plant in service. Although the Commission already approved the Hawaiian Electric Companies’ transition to the FERC USOA in Docket No. 2013-0007, in the abundance of caution, the Company is requesting Commission approval to reflect this change in the results of operations and the determination of the 2020 test year revenue requirement.

Additionally, in HECO T-16 at 21, the Hawaiian Electric Companies proposed to exclude the CIAC associated with CWIP in its calculation of rate base in the rate base RAM filings. The Companies proposed to reflect this change in each of the Companies’ annual decoupling filings in the year following the Commission’s approval to set electric rates which are calculated incorporating this change in Hawai‘i Electric Light’s 2019 test year rate case proceeding.

Regarding developer advances, the Company stated in its Application (at 19):

Hawaiian Electric is including the balance of developer advances, which represent cash contributions received in excess of total utility project expenditures incurred and thus subject to refund to the developer, as a reduction to test year rate base. Including developer advances as a reduction from rate base would be similar to the treatment in the 2017 test year rate case, when the balances were classified under unamortized CIAC. The Hawaiian Electric Companies propose to account for developer advances in the rate base RAM filings in a manner consistent with the way CIAC had been treated when the rate base RAM was originally developed. Accordingly, the Companies also propose to revise the RAM tariff sheets to reflect this change. The Companies propose to implement such changes in each of the Companies’ annual decoupling filings in the year subsequent to receiving Commission approval for this change either in an interim or final decision and order in Hawai‘i Electric Light’s 2019 test year rate case, Docket No. 2018-0368 (at 19) and in the other Companies’ rate case or general rate setting proceedings.

With regard to the treatment of CIAC associated with CWIP and developer advances, the Parties agree to exclude the CIAC associated with CWIP in its calculation of the rate base RAM⁵¹

⁵¹ The Parties acknowledge that, depending on decisions made in Docket No. 2018-0088 and when the decisions are made, the need for the described adjustments to RAM may be unnecessary.

in the annual decoupling filing subsequent to Commission approval of this settlement agreement and revise the RAM tariff for Developer Advances. The Parties further agree that the AFUDC accrual process will be based on CWIP net of CIAC and that CIAC will not be incorporated into the depreciation accrual until the project(s) it relates to are considered plant in service. Hawai'i Electric Light and the Consumer Advocate agreed to the same settlement terms in the 2019 test year rate case.⁵²

PERFORMANCE INCENTIVE MECHANISM TARIFF REVISIONS

In accordance with Hawaiian Electric's Performance Incentive Mechanism Provision tariff ("PIM Tariff") and Order No. 34750,⁵³ the PIM Tariff requires the following: "The Performance Targets, Deadbands and the amount of Maximum Financial Incentives used to determine the PIM Financial Incentive levels for each of the PIMs shall be re-determined upon issuance of an interim or final order in a general rate case for each Company and shall remain constant in interim periods, unless otherwise amended, as necessary, by order of the Commission."⁵⁴

For the purposes of reaching a settlement, upon issuance of an order approving this settlement agreement for this rate case, Hawaiian Electric will update the performance targets, deadbands, and maximum financial incentive amounts based on the most recent available data as of the date of approval of this settlement agreement for the following conventional PIMs:⁵⁵

1. System Average Interruption Duration Index ("SAIDI")
2. System Average Interruption Frequency Index ("SAIFI")
3. Call Center Performance (Service Level)

NET DEPRECIATION EXPENSE

Decision and Order No. 35606 ("D&O No. 35606") issued on July 30, 2018 in Docket No. 2016-0431 (Hawaiian Electric Companies' 2015 Book Depreciation Study) approved new depreciation and amortization rates for the Hawaiian Electric Companies and stated the following: "Unless otherwise ordered by the commission, the effective date of the consolidated depreciation and amortization rates shall coincide with the effective date of interim or final rates in each of the Companies' subsequent general rate case proceedings..." Because the June 22, 2018 date of Final Decision and Order No. 35545 in the Hawaiian Electric 2017 test year rate case preceded the issuance of D&O No. 35606, the Company has not yet implemented its new depreciation and amortization rates.

⁵² See Parties' Stipulated Partial Settlement Letter, Docket No. 2018-0368, Exhibit 1 at 15-16.

⁵³ See Order No. 34750 in Docket No. 2013-0141 (at 9-10), *Directing the Hawaiian Electric Companies to File Revised Proposed Initial Performance Incentive Mechanism Tariffs, and Addressing Hawaii Renewable Energy Alliance's Motion to Withdraw*, issued on August 11, 2017.

⁵⁴ PIM Tariff, Sheet No. 98 and 98A, effective January 1, 2018.

⁵⁵ This settlement does not affect the recommendations in the Consumer Advocate's Statement of Position filed on April 30, 2020, regarding tariff Transmittal Nos. 20-01, 20-02, and 20-03, nor is it intended to restrict either the Hawaiian Electric Companies or the Consumer Advocate from taking different positions in Docket No. 2018-0088. If the Commission modifies the manner in which targets are calculated either as a result of the recommendations in the decoupling tariff transmittal or in Docket No. 2018-0088, the changes in the target will be made in accordance with Commission guidance in the relevant decision and order.

Subpart c of CA-IR-565 asked the following question: “Is HECO willing to agree that the new depreciation and amortization accrual rates from Docket No. 2016-0431 would be applied effective January 1, 2020, subject to Commission approval? If not, why not?” The Company’s response, filed on March 13, 2020, stated that Hawaiian Electric would agree to apply the new depreciation and amortization rates from D&O No. 35606 effective January 1, 2020, if ordered by the Commission. For purposes of reaching a settlement, the Parties agree to the implementation date of January 1, 2020 for the depreciation and amortization rates approved in Docket No. 2016-0431.

COST OF CAPITAL

In its Application and written testimonies filed on August 21, 2019, Hawaiian Electric proposed an ROR of 7.97% (based on its estimated capital structure for 2020 and an ROE of 10.50%) to determine the revenue requirement for the 2020 test year.⁵⁶

As HECO T-26 explains, to estimate the weights of the sources of investor funds for Hawaiian Electric’s 2020 test year capital structure, the Company began with the recorded balances as of December 31, 2018 and estimated changes in 2019 and 2020. The test year capital structure, as shown in the table below, reflects the capital structure that the Company expects to actually have in place, on average, during the 2020 test year and during the period when rates will be in effect. The target ratio of 58% equity (the combined preferred stock and common equity proportions) was established to take into account the adjustments rating agencies make for imputed debt (e.g., adjustments for PPAs, pension obligations and operating leases),⁵⁷ and was established to at least maintain the Company’s existing credit ratings.⁵⁸

Based on the Discounted Cash Flow (“DCF”), the Capital Asset Pricing Model (“CAPM”), and the Bond Yield Plus Risk Premium analyses, Mr. Robert Hevert, Hawaiian Electric’s rate of return on common equity witness, recommended a cost of equity in the range of 10.25% to 11.00%, and a point estimate of 10.50%.⁵⁹

⁵⁶ See HECO T-25 and HECO T-26.

⁵⁷ See discussion in HECO-2610 (Investment Risk).

⁵⁸ HECO T-26 at 48.

⁵⁹ HECO T-25 at 2-3.

Table 1: Cost of Capital - Direct Testimony⁶⁰

<u>Capital Structure Components</u>	<u>Amount (in Thousands)</u>	<u>Weight</u>	<u>Earnings Requirement</u>	<u>Weighted Cost</u>
Short-Term Debt	14,690	0.58%	2.50%	0.01%
Long-Term Debt	1,044,127	41.42%	4.60%	1.91%
Preferred Stock	21,302	0.85%	5.33%	0.05%
Common Equity	1,440,676	57.15%	10.50%	6.00%
Hawaiian Electric's Rate of Return on Rate Base				7.97%

Settlement

For the purpose of reaching settlement, Hawaiian Electric agrees that it will adjust the earnings requirement of long-term debt to reflect the actual interest rate of 3.50% on the issuance of \$70 million of special purpose revenue bonds on October 10, 2019, instead of reflecting the 4.25% estimate assumed for the special purpose revenue bonds in its direct testimony.⁶¹ This update reduces the effective rate for long-term debt from 4.60% to 4.55%. For the 2020 test year, the Parties agree to the cost of capital parameters for short-term debt, long-term debt and preferred stock as shown in the table below.

Table 2: Hawaiian Electric Adjusted Capital Structure

<u>Capital Structure Components</u>	<u>Amount (in Thousands)</u>	<u>Weight</u>	<u>Earnings Requirement</u>	<u>Weighted Cost</u>
Short-Term Debt	14,690	0.58%	2.50%	0.01%
Long-Term Debt	1,044,127	41.42%	4.55%	1.88%
Preferred Stock	21,302	0.85%	5.33%	0.05%
Common Equity	TBD ⁶²	TBD	TBD	TBD
Hawaiian Electric's Rate of Return on Rate Base				TBD

Moreover, the Parties agree that the ROE and equity ratio for Hawaiian Electric should mirror the Commission approved Hawai'i Electric Light ROE and equity ratio (preferred stock and

⁶⁰ See HECO T-26 at 57 and HECO-2601.

⁶¹ See Exhibit HECO-2603.

⁶² "TBD" is the acronym for "to be determined."

common equity) for the purpose of calculating its authorized rate of return, unless otherwise ordered by the Commission.⁶³

RATE DESIGN

Energy Cost Recovery Clause (ECRC)

In its direct testimony, the Company proposed to revise the Low Sulfur Fuel Oil (LSFO) target heat rate to 11,499 Btu/kWh-sales based on its 2020 test year production simulation,⁶⁴ to widen the deadband around the LSFO target heat rate to +/-225 Btu/kWh-sales,⁶⁵ to modify the existing downward-only annual adjustment to the target heat rate to a bi-directional adjustment,⁶⁶ and to update the non-adjustable component to reflect 2020 test year fuel handling expenses.⁶⁷ The Company also proposed a time-variant ECRC to be applicable to commercial time-of-use customers.⁶⁸ The Company proposed no change to the fossil fuel cost risk-sharing mechanism.⁶⁹

For the purposes of achieving a global settlement, the Parties agree to modify only the deadband around the LSFO target heat rate to +/-225 Btu/kWh-sales. The Parties agree to retain the existing LSFO target heat rate of 11,142 Btu/kWh-sales, which was established effective January 1, 2020 through the implementation of the downward only annual adjustment to target heat rate. The Parties further agree to retain: 1) the current non-adjustable ECRC component that is based on 2017 test year fuel handling expense; 2) the existing fossil fuel cost risk-sharing mechanism; and 3) the downward only annual adjustment to target heat rate. In addition, as part of the Settlement, the Company withdraws its proposed time-variant ECRC rates for commercial customer time-of-use rate options. The Parties acknowledge that this agreement on target heat rate terms and administration is solely for the purpose of achieving a global settlement in this rate case, and both Parties retain their rights to pursue future adjustments to target heat rate terms and administration as provided in the ECRC tariff.

⁶³ The parameters in Table 2 in the weight and weighted cost columns are for illustrative purposes. The Parties recognize that, upon the Commission's determination of the appropriate ROE and equity ratio in the pending Hawai'i Electric Light rate proceeding in Docket No. 2018-0368, the adoption of the Commission's decision for Hawaiian Electric will affect the parameters currently identified in Table 2.

⁶⁴ HECO-607 at 1.

⁶⁵ HECO-607 at 1.

⁶⁶ HECO T-27 at 25-26.

⁶⁷ HECO T-27 at 28.

⁶⁸ HECO T-27 at 26-28.

⁶⁹ HECO T-27 at 22.

Purchase Power Adjustment Clause (PPAC)

In its direct testimony, the Company proposed to update its PPAC allocation factors based on 2020 test year cost of service and to update its base PPAC rates using 2020 test year purchased power expenses and 2020 test year sales.⁷⁰

For the purposes of achieving a global settlement, the Parties agree to retain the existing 2017 test year base PPAC rates and 2017 test year PPAC allocation factors.

Rate Design

In its direct testimony, the Company proposed higher customer and demand charges, modified non-fuel energy charges, modified adjustments for voltage discounts, modified Schedule TOU-G, TOU-J, and Schedule TOU-P to reflect the time-variant ECRC, and modified Schedule TOU-J and Schedule TOU-P demand charges. The Company also proposed changes to the base charges in Schedule TOU-RI, Schedule TOU-EV, Schedule TOU-R, Schedule EV-F, Schedule E-BUS-J, Schedule E-BUS-P, and Schedule U consistent with their existing methodologies and/or differentials from the applicable default rate schedule rates. The Company also proposed to terminate Schedule TOU-R effective September 30, 2023.⁷¹

For the purposes of achieving a global settlement, the Company withdraws the above rate design proposals and withdraws its proposal to terminate Schedule TOU-R, and therefore, the Parties agree that the existing customer, demand, minimum, non-fuel energy charges, and other base adjustments that are reflected in its existing rates, including the non-adjustable portion of the existing ECRC rate, shall be retained and remain in effect.

Decoupling Tariffs

In its direct testimony, the Company proposed to modify the RBA tariff to change the allocation factors to be based on the number of days of the month and to change the application of the RBA to customer bills to a percentage of base bill basis instead of on a cents-per-kWh basis.⁷² The Company also proposed to modify the RAM tariff for language consistent with the change from NARUC to FERC.⁷³

For the purposes of achieving a global settlement, the Parties agree that the Company shall implement its proposed change to the monthly RBA allocation factors to be based on the number of days of the month, to be effective January 1, 2021, and implement its proposed application of the RBA rate adjustment to customer bills on a percentage of base bill basis, to be effective June 1, 2021.

The Parties note that in the partial settlement agreement in the Hawai'i Electric Light 2019 test year rate case they agreed to the same proposed changes to the monthly RBA allocation factors

⁷⁰ HECO T-27 at 40-41.

⁷¹ HECO T-27 at 32-40.

⁷² HECO T-27 at 43-45.

⁷³ HECO T-27 at 46.

and to the recovery for the RBA rate adjustment as a percentage of the base bill. The Commission approved and implemented the proposal for monthly RBA allocation factors in its Interim Decision & Order but has not yet ruled on the recovery method for the RBA rate adjustment.

For this Hawaiian Electric case, the Parties expect the Commission to adopt the proposed change to the monthly RBA allocation factors. However, if the Commission's final decision and order in Hawai'i Electric Light's 2019 test year rate case is different from the proposed change to the recovery of the RBA rate adjustment as a percentage of base bill, the Parties agree to accept the resolution in the final D&O in the Hawai'i Electric Light rate case as the settled position for this issue in this case.

The Company also notes that it made a similar RAM tariff language proposal within its 2020 decoupling filing⁷⁴ and will pursue the RAM tariff language changes in that venue rather than as part of this settlement agreement.

Rules Changes

In its direct testimony, the Company proposed to modify the minimum charges applicable to Schedule R and Schedule G customers in Rule Nos. 22, 23, 24, and 25. The Company also proposed to lower the interest rate on customer deposits in Rule No. 6, proposed to increase the service establishment charge, the reconnection-restoration fee, and the charge for same-day service or service outside of normal business hours in Rule No. 7, and modified Rule Nos. 22, 24, 25, and 27 to assess an application fee for usage of the Customer Interconnection Tool.⁷⁵

For purposes of achieving a settlement, the Company withdraws the above proposed modifications to Rule Nos. 6, 7, 22, 23, 24, 25, and 27 from this proceeding.

MANAGEMENT AUDIT

As part of this rate case proceeding, the Commission ordered that an independent management audit of the Company be conducted with focus on these areas:⁷⁶

- Governance and Executive Leadership;
- Capital and Operations & Maintenance Planning, Budgeting, and Investment Strategy; and
- Program and Project Management.

The Commission further provided that "[t]he management audit will also develop recommendations and action plans for implementing any identified changes necessary to achieve performance improvements."⁷⁷ Munro Tulloch, Inc. commenced the audit in October 2019. It

⁷⁴ Transmittal No. 20-01 (Decoupling) filed March 31, 2020, Attachment 1 and 1A.

⁷⁵ HECO T-27 at 42.

⁷⁶ Order No. 36536, issued on September 23, 2019 at 11-13.

⁷⁷ *Id.*, at 12.

concluded with issuance of *Management Audit of the Hawaiian Electric Company (HECO) Final Report* dated May 12, 2020 (“Audit Report”) filed on May 13, 2020, in this proceeding.

Among other things, in section 18 (Savings and Benefits and Rate Case Impacts), the Audit Report identified potential savings that could be realized progressively over a three-year period through workforce reductions and non-labor productivity and efficiency improvements. In that section, the Auditors state:

The [savings and benefits] recommendations should be considered an essential prelude to moving towards a Performance Based Regulatory (PBR) structure which would [] offer the Company an opportunity to retain some of the upside in future improvements if it achieves its targets. As a result of this Management Audit both the Commission and the Consumer Advocate should have a more transparent and holistic view of the Company’s Operations which can inform the 2020 HECO rate review and future regulatory proceedings.

Audit Report at 171. Section 18.2 specifically lists the auditors’ summary ranges of FTE⁷⁸ Savings Opportunities, excluding realization costs, Section 18.3 lists the auditors’ summary ranges of Non-FTE Savings Opportunities, and Section 18.4 lists the auditors’ summary ranges of Total Savings Opportunities, excluding realization costs. From these tables, when projected realization costs are considered, the mid-point of savings realized by the end of 2022 is \$24.225M, with a projected steady state of \$26.575M reached in 2023. Audit Report at 174. More specifically, the auditors state in section 18.5:

As can be seen from the tables in 18.2, 18.3 & 18.4 the Total savings opportunities identified are in the range of \$17.425m to \$35.725m with FTE reductions of 91-179.

Taking the mid-point numbers this suggests realistic savings opportunities from 135 FTE reductions and \$26.575m in total savings. These are all net numbers for steady state from the beginning of year 4 onwards although of course the savings will be delivered progressively during the preceding years. . . .

While we assumed for purposes of our modeling that rate/revenue reductions to return the benefits to customers will occur at the beginning of the year following the achievement of savings, this is a regulatory timing and alignment issue, which must be reconciled between the Company, the Commission and the Consumer Advocate as part of the regulatory proceedings.

Audit Report at 174 (underscore added). For FTE reductions, the auditors assumed a loaded cost of \$175,000/year per FTE. *Id.* The auditors state that their annual benefits and savings target of \$25 million-\$26.5 million to be progressively delivered by the end of 2022 “is undoubtedly a stretch target,” but “it is realistic and achievable with focus and leadership.” Audit Report at 12. Importantly, the auditors also note that:

⁷⁸ “FTE” is the acronym for full-time equivalent.

The areas of savings may vary depending on the actions and findings of the Company. Some of the non-FTE projected savings e.g. from revisions to the CBA make take longer to deliver which would change some of the phasing and the Non-FTE savings numbers.

Audit Report at 174.

The Company's Responses to the Audit Findings are contained in pages 188-205 of the Audit Report. In response to section 18 of the Audit Report, the Company states that: It agrees that savings opportunities exist in rough alignment with the areas identified by the auditors, although the Company does not necessarily agree that targets stated in each specific area are appropriate targets or that a loaded cost of \$175,000/year per FTE is an appropriate assumption across such a broad category of employees and process areas. The Company also believes that savings relating to the collective bargaining agreement ("CBA") will also be harder to achieve during the three-year period because of the timing of CBA renegotiations. Audit Report at 203. Taking these two factors into consideration, in the interest of compromise, continuous commitment and for the benefit of certainty and finality, the Company states that it believes that \$25 million of savings (not \$26.5 million) is a more reasonable target to be achieved by the end of 2022. *Id.* Thus, the Company committed to \$25 million in savings over three years ("Savings Commitment") with the following understandings and on the following conditions:

- As the auditors acknowledge, this is a stretch target. The Company believes the Savings Commitment should be considered the full savings commitment required of the Company as a result of this audit.
- The Savings Commitment, as the auditors recommend, will be on top of the ERP savings/benefits realization previously guaranteed by the Company in Docket No. 2014-0170 ("ERP Benefits"). Because it could be perceived that there is some overlap in the source of benefit areas between ERP benefits and this Savings Commitment, the Company maintains that the Company's full commitment from the ERP Benefits and this Savings Commitment will be at \$42.94 million as its combined steady state is achieved in 2023⁷⁹
- The Savings Commitment is roughly expected to be comprised of 80% capital/20% O&M. It will be progressively realized by the end of each year consistent with this schedule from the audit:
 - 25% by end of 2020
 - 40% by end of 2021 (i.e. 65% of total)

⁷⁹ The Company notes that "The combined value for 2023 is calculated based on the \$25 million management audit benefit plus \$17.94 million ERP/EAM benefit as referenced in Docket No. 2014-0170 Stipulated Benefits Performance Metrics filed on September 9, 2019, see Detail Data Set for Charts. This ERP/EAM benefit value does not include the Net Application and Support Costs since in PUC Order No. 36449 on 8/1/2019, the Commission accepted "the Companies' proposal to track Benefit Category No. 10, Net Application and Support Costs, using a separate, different methodology from the tracking of the nine other benefit categories.'" Audit Report at 203, footnote 52.

- 35% by end of 2022 (i.e. 100% of total)

And for Category 3 savings to reach final steady state to be:

- 50% by end of 2021
- 100% by end of 2022

See Audit Report at 171.

- Achievement of FTE reduction savings will be measured against existing FTE numbers as stated in this audit, as may be clarified by any preceding response. Non-FTE and other efficiency savings achievement will be measured against the comparative prior year actuals.
- As acknowledged by the auditors (Audit Report at 177), the Company needs and should have reasonable flexibility in how the Savings Commitment is actually achieved, so long as the savings are in rough alignment with the categories and sources identified in section 18 of the audit. For example, the numbers of FTE reductions and the amounts of savings from the identified areas may be somewhat different than identified in the tables in section 18 provided that the full Savings Commitment is achieved by the end of 2022.
- The Savings Commitment will be converted to revenue requirements, and the ratemaking treatment and regulatory mechanism(s) to provide these benefits to customers will be discussed between the Company and the Consumer Advocate and ultimately be subject to approval by the Commission.

Audit Report at 203-204.

In response to the Company's response, the Auditors state:

In our audit report we identified a range of potential savings opportunities from different areas of Operations and recommended a target of \$26.575m as an equitable mid-point based on our review. The \$26.575 is a steady state savings from 2023 onwards. As we show in section 18.5 this would be delivery of annual savings progressively increasing to \$26.575 per year from the start of 2023 onwards with annual savings prior to that of:

*\$4,250 by 2020 year end
\$14,125 by 2012 year end
\$24,225 by 2022 year end*

We must stress that the final figure will be a decision to be reached in the 2020 regulatory proceedings by the stakeholders.

We view the Company's stated commitment to a steady state \$25m annual savings target, in the same timeframe and phasing as we have recommended, as a

very strong indication by Company leadership that they are equally cognizant of the potential for performance improvement. We also regard the early and comprehensive actions taken by the Company to initiate changes in line with our recommendations as a powerful indication of good faith to delivering on this commitment.

We agree with the requirement for the company to have some flexibility in how these savings are delivered. While we have provided our best estimates of where they can be achieved we are fully cognizant that in practice some of these areas will change due both to internal and external drivers. While in detail we expect some areas of savings will change, in aggregate the total benefit for customers will be achieved.

Audit Report at 204-205.

Based on the above, the Company has committed to deliver savings benefits to customers “at the beginning of the year following the achievement of savings[.]” Audit Report at 174. This will achieve a steady state of \$25M in savings in 2023. Audit Report at 174, 178. Because savings benefits will begin to be provided to customers after 2020 (*i.e.*, beyond the test year), the Company’s Savings Commitment provided in the Audit Report shall be delivered to customers via a component of the new multiyear rate plan being developed in the pending Docket No. 2018-0088, the PBR docket. The Parties recognize that changes in future costs, including quantification of productivity rates and consumer dividends, are under consideration in the PBR Docket No. 2018-0088. Nothing within this Settlement is intended to restrict either the Hawaiian Electric Companies or the Consumer Advocate to any positions in the PBR Docket regarding future cost changes, productivity or consumer dividend quantification matters and the Consumer Advocate shall, consistent with the Commission approved procedural schedule file its Statement of Position on the Management Audit on June 17, 2020.

Formatted Similar to PUC-HECO-IR-32, Attachment 1

Charges to Energy Delivery Clearing						Charges to capital		
Row Labels	Sending Cost Center Name	Direct	OH	Total	% to capital ¹	Direct	OH	Total
Labor	Adm-Asset Mgt (PRK)	308,848	38,017	346,865	75.21%	232,284	28,593	260,877
	Asset Programs (PRP)	544,844	83,019	627,863	75.21%	409,777	62,438	472,216
Labor Total		853,692	121,036	974,728		642,062	91,031	733,093
Non Labor	Adm-Asset Mgt (PRK)	56,624	190,027	246,651	75.21%	42,587	142,919	185,506
	Asset Programs (PRP)	963,826	327,045	1,290,871	75.21%	724,894	245,970	970,864
Non Labor Total		1,020,450	517,072	1,537,521		767,480	388,890	1,156,370
Total		1,874,142	638,107	2,512,249		1,409,542	479,921	1,889,463

% to capital¹ = 1 - Q3 ytd 2018 % to O&M

Hawaiian Electric Company, Inc.

Pension

Summary of Pension Related Regulatory Assets/Liabilities and Expenses

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(\$ Thousands)

		A	B	C
			=C - A	
		Operating		TY
		<u>Budget</u>	<u>Adjustment</u>	<u>Estimate</u>
<u>Expenses:</u>				
1	Net Periodic Pension Cost ("NPPC")	a 42,599	8,240	50,839
Amortizations:				
2	Pension reg asset	b 14,076	(5,368)	8,708
3	Non-service cost regulatory asset	c 108	274	382
4	Total pension expense	<u>56,783</u>	<u>3,146</u>	<u>59,929</u>
		D	E	F
				=(D + E)/2
<u>Regulatory Assets, Net</u>		<u>Beginning</u>	<u>Ending</u>	<u>Average</u>
5	Pension tracking (see p.2)	55,088	39,184	47,136
6	Contributions in excess of NPPC (see p.3)	-	-	-
7	Non-service cost ("NSC") (see p.4)	1,569	1,721	1,645

Notes:

- Totals may not add or tie exactly due to rounding.

A Pension related expenses are reflected in the Human Resources Divison's O&M expenses. See Human Resources' summary schedule of amounts relating to employee benefit at HECO-1850. The operating budget figure for the amortizaiton amounts are shown on HECO-1850, lines 3 and 5.

C The test year estimate for NPPC and the amortization calculation are presented in this exhibit at the following locations:

NPPC	p.2
Pension reg asset	p.2
Non-service cost reg asst	p.3

Hawaiian Electric Company, Inc.

Pension

Calculation of Pension Regulatory Asset/Liability

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(\$ in Thousands)

		Pension Tracking Regulatory Asset/Liability						
		Fraction of Year	NPPC in rates	Actual NPPC	Change in Asset (Liability)	Amortization		Balance
						Basis	period	
1	Balance as of 12/31/15 ¹							\$ 80,598
2	Tracker	1	33,622	50,094	16,472			16,472
3	Amortization							550
4	Balance as of 12/31/16							97,620
5	Tracker	1	33,622	50,983	17,361			17,361
6	Amortization							550
7	Balance as of 12/31/17							115,531
8	Tracker	1.5/12	33,622	46,694	13,072			1,673
9	Amortization					550	1.5/12	70
10	Balance as of 2/15/18							117,274
11	Tracker	10.5/12	50,983	46,694	(4,289)			(3,753)
12	Amortization					22,957	1.5/12	(20,019)
13	Balance as of 12/31/18							93,502
14	Tracker	1	50,983	35,526	(15,457)			(15,457)
15	Amortization					22,957		(22,957)
16	Balance as of 12/31/19							55,088
17	Tracker ²	1/1-20-6/30/20	6/12	50,983	50,839	(144)		(72)
18	Amortization					22,957	6/12	(11,479)
19	Balance as of 6/30/20							43,538
20	Tracker ²	7/1/20-12/31/20 ³	6/12	50,839	50,839	-		-
21	Amortization ⁴						8,708	6/12
22	Balance as of 12/31/20							39,184
23	Tracker	1	50,839	50,839	-			-
24	Amortization						8,708	1
25	Balance as of 12/31/21							30,476
26	Average 2020							\$ 47,136

Notes:

1 See HECO-1702 page 1 from Hawaiian Electric's 2017 test year rate case for presentation of the pension tracking regulatory asset/liability balance roll-forward from 2010 to 2015.

2 Updated 2019 to actual and 2020 NPPC to estimate provided in February 2020 by Towers Watson.

3 Assumed 2020 TY interim rate will go into effect August 1, 2020.

4 Amortization based on the balance as of 06/30/20 balance amortized over 5 years.

Hawaiian Electric Company, Inc.
Pension
Pension Non-Service Regulatory Asset
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		Fraction of Year		Total	Total In \$000
	Period	Monthly Amount	Mos		
1	Balance as of 12/31/17			-	-
2	NSC - 2018	1/18 -2/15/18	1.5	285,202	285
3		2/16/18 - 12/31 2018	10.5	598,243	598
4	Balance as of 12/31/18			883,445	883
5	NSC - 2019	Jan-Dec	12	686,040	686
6	Balance as of 12/31/19			1,569,485	1,569
7	NSC - 2020	Jan-Jun	6	343,020	343
8	Balance as of 7/31/2020			1,912,505	1,912 (a)
9	NSC -2020	Jul-Dec	-	-	-
10	Amortization (5 years) ¹		6	(191,251)	(191)
11	Balance as of 12/31/2020			1,721,255	1,721
12	NSC -2021		-	-	-
13	Amortization (5 years)		12	(382,501)	(383)
14	Balance as of 12/31/2021			1,147,503	1,147
15	Average 2020			1,645,370	1,645
16	Annualized Amortization (5 year)			(a)/5 =	382

Note:

- 1 Assumed 2020 TY interim rate will go into effect July 1, 2020. Amortization based on the balance as of 06/30/20 balance amortized over 5 years.

Hawaiian Electric Company, Inc.
Pension
Contributions in Excess of NPPC
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(\$ in Thousands)

	Balance
1 Balance, 12/31/15	\$ 19,411
2 Changes in 2016	-
3 Balance, 12/31/16	19,411
4 Changes in 2017	-
5 Balance, 12/31/17	19,411
6 Changes in 2018	(19,411)
7 Balance, 12/31/18	-
8 Changes in 2019	-
9 Balance, 12/31/19	-
10 Changes in 2020	-
11 Balance, 12/31/20	-
9 Average	\$ -

Notes:

line 1 The balance originated in 2011 when the Company was required to contribute \$53,033,000 while the NPPC was \$33,622,000. In the 2011 test year rate case, Hawaiian Electric Company the amortization of contributions in excess of NPPC regulatory asset balances were not included. Accordingly, there were no amortization recorded in 2011 through 2016.

lines 2&4 See note to line 1 above.

line 6 In Hawaiian Electric's 2017 test year rate case, changes were made to the pension tracking mechanism such that the Company would be required to fund the minimum required level under the law until the pension asset or the contributions in excess of NPPC regulatory asset is reduced to zero. The difference between the contribution amount and the NPPC would be applied to reduce the contributions in excess of NPPC regulatory asset balance. The contributions in excess of NPPC balance that existed as of 12/31/2017 was reduced to zero in 2018 in accordance with the new treatment.

lines 8&10 Since the contributions in excess of NPPC regulatory asset balance was reduced to zero, the Company's annual contribution to the pension trust fund is equal to the amount of NPPC, in accordance with the pension tracking mechanism.

Hawaiian Electric Company, Inc.
Post-Retirement Benefits Other Than Pension (OPEB)
Summary of OPEB Related Regulatory Liability and Expenses
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(\$ Thousands)

	A	B =C-A	C
	Operating Budget	Adjustment	TY Estimate
<u>Expenses:</u>			
1 Net Periodic Benefit Cost ("NPBC")	-	-	-
2 Annual amortization of regulatory liability OPEB tracker	(335)	113	(230)
3 Total pension expense	(335)	113	(230)
	D	E =F-D	F
	Beginning	Ending	TY Avg
4 NPBC vs. NPBC in rates	(1,386)	(1,036)	(1,211)

Notes:

- Totals may not add or tie exactly due to rounding.
- A OPEB related expenses are reflected in the Human Resources Division's O&M expenses. See Human Resources' summary schedule of amounts relating to employee benefit at HECO-1850. The operating budget figure for the annual amortization of the regulatory liability shown in column A is presented in HECO-1850, line 11.
- C See p.2 of this exhibit for the calculation of the annual amortization amount.
- B The Company proposes an adjustment for the difference between the final test year estimate and the amount reflected in the operating budget for 2019 as follows. See HECO-WP-1503C (Adj #4) for the adjustment incorporated into Human Resources Division's O&M expense test year estimate.

	<u>Cost Center</u>	<u>Cost Element</u>	<u>FERC</u>	<u>Direct/Overhead</u>	<u>Adj \$</u>
Amortization	101203S	60002200	9260	Direct	113

Hawaiian Electric Company, Inc.

Post-Retirement Benefits Other Than Pension (OPEB)

Calculation of OPEB Regulatory Asset/Liability

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(\$ in Thousands)

OPEB Tracking Regulatory Asset/Liability								
		Fraction of Year	NPBC in rates	Actual NPBC	Change in Asset (Liability)	Amortization		Balance
						Basis	period	
1	Balance as of 12/31/15 ¹							(3,301)
2	Tracker	1	1,424	-	(1,424)			(1,424)
3	Amortization							1,909
4	Balance as of 12/31/16							(2,816)
5	Tracker	1	1,424	-	(1,424)			(1,424)
6	Amortization							1,909
7	Balance as of 12/31/17							(2,331)
8	Tracker	1/1/18 - 2/15/18	1,424	-	(1,424)			(182)
9	Amortization					1,909		244
10	Balance as of 2/15/18							(2,269)
11	Tracker	2/16/18 - 12/31 2018	-	-	-			-
12	Amortization					470		413
13	Balance as of 12/31/18							(1,856)
14	Tracker	1	-	-	-			-
15	Amortization					470		470
16	Balance as of 12/31/19							(1,386)
17	Tracker ²	1/1/20-6/30/20	-	-	-			-
18	Amortization					470	6/12	235
19	Balance as of 6/30/20							(1,151)
20	Tracker ²	7/1/20-12/31/20 ³	-	-	-			-
21	Amortization ⁴					230	6/12	115
22	Balance as of 12/31/20							(1,036)
23	Tracker		-	-	-			-
24	Amortization					207	1	207
25	Balance as of 12/31/21							(829)
26	Aveage 2020							(1,211)

Notes:

- 1 See HECO-1703 page 1 from Hawaiian Electric's 2017 test year rate case for presentation of the OPEB tracking regulatory asset/liability balance roll-forward from 2010 to 2015.
- 2 Updated 2019 to actual and 2020 NPBC to estimate provided in February 2020 by Towers Watson.
- 3 Assumed 2020 TY interim rate will go into effect August 1, 2020
- 4 Amortization based on the balance as of 07/31/20 balance amortized over 5 years.

Hawaiian Electric Company, Inc.

Post-Retirement Benefits Other Than Pension (OPEB)

OPEB Tracking Regulatory Asset and Liability

Negative NPBC Regulatory Liability - Not in Rate Base

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(\$ Thousands)

Year	NPBC in rates A	Actual NPBC B	OPEB Tracking Regulatory Asset/(Liability) (HECO-1703, page 1-2) C=	Not in Rate Base	
				(Increase) Decrease OPEB Regulatory Liability D=	Ending Regulatory Liability Balance E=
		<i>If B is positive--></i> <i>If B is negative--></i>	<i>B - A</i> <i>zero - A</i>	<i>zero</i> <i>B</i>	<i>Prior Year E + D</i>
2013	1,424	830	(594)		\$ -
2014	1,424	(562)	(1,424)	(562)	(562)
2015	1,424	846	(578)	-	(562)
2016	1,424	(236)	(1,424)	(236)	(798)
2017	1,424	(266)	(1,424)	(266)	(1,064)
1/1/18-2/15/18	182	(424)	(182)	(424)	(1,488)
2/16/18-12/31/18	-	(2,726)	-	(2,726)	(4,214)
2019	-	(3,188)	-	(3,188)	(7,402) a
2020	-	(3,041)	-	(3,041)	(10,443) b

Notes:

- Totals may not add or tie exactly due to rounding.
- If NPBC is negative, regulatory liability will be increased by the difference between NPBC in rates for the period and zero; negative amount included in a separate regulatory liability
- Negative amount in separate account will increase by any negative NPBC, or decrease by the amount of actual NPBC above amounts in rates. If the actual NPBC is larger than the NPBC in rates in a subsequent year, then the excess of actual NPBC over the NPBC in rates will reduce the separate regulatory liability before being used to establish a regulatory asset.

a Based on actual NPBC for 2019.

b Based on estimate of NPBC for 2020 provided by Towers Watson in February 2020.

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing document, together with this Certificate of Service, were duly served on the following parties and participants, by having said copies delivered by electronic service as set forth below:¹

Party/Participant	Electronic Service	Hand Delivery	U.S Mail/ Courier Service
Dean Nishina Executive Director Division of Consumer Advocacy Department of Commerce and Consumer Affairs Dean.K.Nishina@dcca.hawaii.gov consumeradvocate@dcca.hawaii.gov	1		
James J. Schubert Associate Counsel Department of the Navy, Naval Facilities Engineering Command Pacific (NAVFAC Pacific) on behalf of the Department of Defense james.j.schubert@navy.mil khojasteh.davoodi@navy.mil larry.r.allen@navy.mil makda.solomon@navy.mil	1		

DATED: Honolulu, Hawai‘i, May 27, 2020.

/s/ Tyler Oya _____

Tyler Oya
HAWAIIAN ELECTRIC COMPANY, INC.
Regulatory Affairs

¹ As stated in Order No. 37043 *Setting Forth Public Utilities Commission Emergency Filing and Service Procedures related to COVID-19* (non-docketed), issued on March 13, 2020 at 11:

Service of all documents filed by any parties, participants, utilities, stakeholders and/or other entities or individuals shall be via email. All entities making filings before the commission will be required to supply an email address that can be used for service. Any Certificates of Service for docketed or other matters that previously had listed the entity's name and the physical address where a document was served via first-class mail, shall instead reflect the entity's representative's name, entity name, email address where served, as well as the date of service.

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